

THE INDONESIAN QUARTERLY

ASEAN's Long Journey

- Current Events
- ASEAN Economic Cooperation:
The Long Journey to AFTA
- ASEAN Free Trade Area (AFTA):
An Indonesian Perspective
- ASEAN's Informal Networking
- ASEAN's Role and Development as
a Security Community
- China's Defence Policy and Security
in the Asia Pacific
- Selective Peacekeeping: Toward
Effective Intervention
- Book Review



The Quarterly

The Indonesian Quarterly is a journal of policy oriented studies published by the Centre for Strategic and International Studies (CSIS), Jalan Tanah Abang III/23-27, Jakarta 10160. It is a medium for research findings, evaluations and views of scholars, statesmen and thinkers on the Indonesian situation and its problems. It is also a medium for Indonesian views on regional and global problems. The opinions expressed in *The Indonesian Quarterly* are those of their authors and do not necessarily reflect the opinion of the CSIS.

The Logo



To better represent the underlying ideas that gave birth to the CSIS in 1971 the Centre uses as of 1989 the logo that figures on the front cover of this journal. The original, in bronze, designed by G. Sidhartha, it consists of a disc with an engraving that depicts the globe which serves as a background to a naked man with an open book laid on a cloth over his lap, his left hand pointing into the book, his right hand raised upwards. Altogether it symbolises the Centre's nature as an institution where people think, learn and communicate their knowledge to whoever are interested, to share it with them, mankind the world over being their concern and the globe their horizon. The nakedness symbolises the open-mindedness, the absence of prejudice, in the attitude of the scholars who work with the Centre, just as it is with scholars everywhere. The inscription reads "*Nalar Ajar Terusan Budi*," which in the Javanese language essentially means that to think and to share knowledge are only the natural consequence of an enlightened mind. It is a *surya sengkala*, that is *chandra sengkala*, a Javanese traditional way to symbolise a memorable year in the lunar calendar, adapted to the solar calendar system. It consists in using words that express the perceived meaning of the commemorated year while marking the year at the same time, each word having a numerical value. Thus, the inscription, in reverse order, represents the year the CSIS was established: 1971.

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Current Events

APEC After Bogor

Hadi Soesastro

Introduction

APEC (Asia Pacific Economic Cooperation) after Bogor is different from the APEC before Bogor in a number of respects. The APEC meetings in Indonesia in November 1994 were overshadowed by the APEC Economic Leaders Meeting (AELM). Formally the AELM is not part of the APEC mechanism. However, since its first informal meeting at Blake Island the year before, APEC's course is being charted by the leaders. As stated elsewhere, "Once the leaders are together, the awesome weight of their decision-making power sort of dawns on them and the chemistry takes over." (*Asian Wall Street Journal*, 11-12 November 1994).

The second leaders meeting, held in Bogor on 15 November 1994, is seen to have moved the APEC process decisively forward with the issuance of the APEC Economic Leaders' Declaration of Common Resolve which sets the goal of free and open trade and investment in Asia Pacific that is to be achieved no later than the year 2020. The de-

cision to achieve free and open trade and investment in Asia Pacific at a date certain has far-reaching consequences for the nature and structure of economic cooperation in the region.

The AELM is practically institutionalised already. This will complicate the APEC process. If such meetings are meant to develop personal contacts among leaders through free-wheeling discussions they certainly will be useful. However, such kind of meeting is not likely to be politically viable as leaders want to return from AELMs with concrete or spectacular results. It has been questioned whether structured annual "summit" will be good for APEC. Lessons ought to be drawn from the experiences of the G-7 and SAARC (South Asian Association for Regional Cooperation). The years to come will continue to see such annual AELMs. This certainly demands more intensive consultations among APEC members at all levels in the policy process, not only at the top level.

The Bogor Declaration contains 11 points. Of these points, the one relating to

the goal of free and open trade in the region appears to be the only contentious issue, although other fundamental problems such as the issue of consensus have also arisen.

As for the achievement of the APEC goal of free and open trade and investment in the region, the Bogor Declaration stipulates the following principles:

- a. the APEC goal will be pursued promptly by further reducing barriers to trade and investment and by promoting the free flow of goods, services and capital among APEC economies;
- b. this goal will be achieved in a GATT (General Agreement on Tariffs and Trade)-consistent manner;
- c. this goal will be achieved no later than the year 2020;
- d. the pace of implementation will take into account the differing levels of economic development among APEC economies, with the industrialised economies achieving the goal no later than the year 2010 and developing economies no later than the year 2020;
- e. APEC opposes the creation of an inward-looking trading bloc that would divert from the pursuit of global free trade and that the APEC goal will be pursued in a manner that will encourage and strengthen trade and investment liberalisation in the world as a whole;
- f. the outcome of APEC liberalisation will not be the actual reduction of barriers among APEC economies but also between APEC economies and non-APEC economies;
- g. particular attention will be given to trade with non-APEC developing countries to ensure that they will benefit from APEC liberalisation in conformity with GATT/

WTO (World Trade Organisation) provisions.

The Bogor Declaration did not clearly specify the modality by which this goal will be achieved. Indeed, the Bogor Declaration should be seen as a statement of the leaders' political commitment. It has been proposed that the 1995 APEC Ministers Meeting or the AELM in Osaka will come up with a "blueprint" to implement this APEC goal. A number of options had been proposed. However, they have not been formally discussed in APEC meetings and it is obvious that differences of view exist amongst them as to how the APEC goal should be achieved. The APEC Eminent Persons Group (EPG) has proposed a kind of "compromise", which however contains ambiguities. Its proposed modality involves the creation of a free trade area, namely negotiated liberalisation among APEC members that can be extended to non-members only on a mutually reciprocal basis. Its proposal allows individual members to unilaterally extend its APEC liberalisation to non-members on an unconditional MFN (Most Favoured Nation) basis.

There appears to have been a concern that the Bogor Declaration implicitly endorsed the EPG modality. This has prompted Malaysia to issue its 6-point reservations and Thailand to issue its 7-point observations on the Bogor Declaration. In his press interview (*New Straits Times*, 16 November 1994), Prime Minister Mahathir reported that President Soeharto as a Chairman of the AELM did not want a flood of amendments and in order to avoid too many changes to the Declaration he suggested that member economies should express their differing opinions in the form of an annexure.

Malaysia's submission gives its interpretation of the APEC goal as contained in the Declaration, namely that:

- a. the liberalisation process to achieve the goal will not create an exclusive free trade area in the Asia Pacific;
- b. the liberalisation process will be GATT/WTO-consistent and on an unconditional MFN basis;
- c. the target dates of 2020 and 2010 are indicative dates and non-binding on member economies;
- d. the liberalisation process to be undertaken will be on a best endeavour basis;
- e. APEC member economies will liberalise their trade and investment regime based on their capacity to undertake such liberalisation commensurate with their level of development; and
- f. the liberalisation process will only cover a substantial portion of Asia Pacific trade and should not go beyond the provisions of GATT/WTO.

Thailand's observations contain the following points:

- a. the goal is not to create a free trade area, and APEC liberalisation must proceed in consonance with the decision of the Uruguay Round and the WTO;
- b. the time frame specified should be seen as the target for achieving the goal;
- c. the "elimination" of trade and investment barriers in the region should be done on a gradual basis.

The role of the AELM in the APEC process will have to be clarified as it is felt that the "top-down" approach which produced the Bogor Declaration did not allow for sufficient consultations to have taken place

within the APEC mechanism. It is indeed true, as stated by Fred C. Bergsten, that a top-level political commitment to achieve the goal of free trade, which involves a top-down process, is demonstrably much more successful than the bottom-up approach (*Asian Wall Street Journal*, 8 December 1994). It was felt, however, that the EPG, being a creation of the APEC Ministers, should not have submitted its Second Report to the Chairman of the AELM. Thailand's annex of observations made it clear that the results of the work of the EPG should be reported through the SOM/APEC Ministers and not to the APEC leaders.

Malaysia's and Thailand's submissions are useful since they address important principles on which there needs to be a common understanding among APEC members in implementing the APEC goal. It was reported that the United States also had objected to the 2010 date, not so much because of substance but because of "the optics of the thing -- [as it] looks like China doesn't have to do a damn thing and [the US gives] them everything." (*Far Eastern Economic Review*, 24 November 1994). However, the United States finally gave in because it realised that at that stage it would be difficult for Indonesia to accommodate all the changes.

It is not clear whether the US objection will be put on record. Mahathir was of the view that the annexure was part of the Bogor Declaration. Prime Minister Goh Chok Tong of Singapore and Prime Minister Keating insisted that this is not so (*Straits Times*, 17 November 1994). It was reported, however, that Indonesia will issue an annex to the Declaration that will address several outstanding issues, including North Asian

concerns over agriculture (*Far Eastern Economic Review*, 24 November 1994).

Despite the expressed reservations one wonders whether positions were really that far apart and could not have been bridged. A number of leaders did not see that there were dissenting views, and some thought that Mahathir made explicit what in fact was implicit in the Declaration.

On the issue of the binding or non-binding nature of the agreement, including the target date, views may actually not differ widely. There were explicit statements from various leaders and high-ranking officials about the non-binding nature of the timetable; these include among others: Prime Minister Keating (*Times*, 4 November 1994), Prime Minister Goh Chok Tong (*Straits Times*, 17 November 1994), and Winston Lord (*Sunday Times*, 6 November 1994). Skeptics have asked the question of what the purpose is of having an agreement which is not legally binding (*Asian Wall Street Journal*, 9 November 1994). There is also the concern that the non-binding nature of the agreement "provides room for foot dragging as bureaucrats struggle to work out detail." (*Asian Wall Street Journal*, 10 November 1994). Finally, there was the view that the timetable for 2020 would be so distant that this would allow for member economies to change their mind on the liberalisation (*Asiaweek*, 16 November 1994).

As stated by Fred Bergsten, the Bogor Declaration is seen primarily as a political commitment (*Asiaweek*, 23 November 1994). Winston Lord believes that the value of the political commitment is its ability to give momentum to trade liberalisation (*Bangkok Post*, 5 November 1994). This view was supported by Goh Chok Tong who

argued that once a country makes a political commitment it has to try to implement it (*Straits Times*, 17 November 1994). There was the view that even if the agreement were non-binding, countries could be "persuaded" to honor it either during bilateral talks or discussions within the group (*New Straits Times*, 14 November 1994).

An option to be considered at a later stage in APEC's development is the principle of "voluntary but binding" participation. Mahathir's concern seems to be related to the potentially material impact of any decision -- despite its non-binding nature -- on the future of APEC, "should it evolve into something more than the loose consultative forum it is today" (*New Straits Times*, 14 November 1994). Therefore, he strongly insisted that decisions within APEC must be based on consensus, a point that is also included in the Malaysian annex of reservations.

The Issue of Consensus

There is the view that APEC decisions are to be based on consensus and must be unanimously approved (*New Straits Times*, 14 November 1994). However, this consensus decision-making procedure is being questioned because agreements may become more difficult to reach as APEC embarks on increasingly ambitious programs. An important question which APEC will have to seriously address is whether such a decision-making should be changed and whether the introduction of a "18 minus X" principle would not be divisive for APEC.

These questions had arisen right from the outset of the APEC meetings in Indonesia

and was triggered off by the US objections at the SOM (Senior Officials Meeting) to the wording of APEC's non-binding investment principles.

President Soeharto, as Chair of AELM, proposed that decisions should be reached on the basis of a "broad consensus", meaning that a decision would as much as possible become a general consent enabling countries that are ready to implement it to do so immediately while those that are less prepared will follow later on (*Jakarta Post*, 12 November 1994). Thailand's Deputy Prime Minister, Supachai, proposed a "pragmatic consensus" while Prime Minister Goh Chok Tong suggested that APEC should work on the basis of a "flexible consensus" and that a "consensus does not necessarily mean unanimity" (*Straits Times*, 17 November 1994).

Indeed, the Bogor Declaration does allow for this so-called opt-out option. This principle was first introduced in the Second EPG Report, but one interpretation is that its application would be limited to the implementation of trade liberalisation in a particular sector. It was felt that the terms "broad, pragmatic, and flexible consensus" were sought to give others the sanction to proceed with the proposal even when there were a few dissenting voices, suggesting that a proposal could proceed even without Malaysia's consent. Therefore, it was asked: What would happen if the "X" in the 18 minus X scheme is the United States instead of Malaysia? (*New Straits Times*, 14 November 1994).

There is the view that "agreeing to a Malaysian opt-out sets a dangerous precedent for the forum" (*Economist*, 19 November 1994). Sir Hamish, the representative

from Hong Kong in the AELM, was of the opinion that the opt-out clause should apply only to new members (*Bangkok Post*, 16 November 1994). It is obvious that APEC must soon address this issue.

The Issues of APEC Liberalisation

If at Blake Island the APEC leaders agreed on a vision, and in Bogor they agreed on a goal, it is expected that in Osaka in November 1995 the leaders will agree on a "blueprint" for trade liberalisation in the region.

Liberalisation within the Group

Of course, the obvious issue that needs to be settled first is what is meant by "free and open trade". Does this imply the total dismantling of all tariffs and non-tariff barriers? What should be done with the so-called "invisible barriers" which are more important than tariffs? Who should decide or how can it be resolved whether one country's tradition is another country's trade barrier? Furthermore, what should be included in the liberalisation: are services to be included and can agriculture be excluded?

Then there is the question of which countries should be included in the fast lane. Both Hong Kong and Singapore have indicated that they can implement the 2010 deadline. Will South Korea, China and Malaysia be included in the 2010 or the 2020 deadline?

The deadline issue as it relates to the US objection mentioned above manifested itself in the emphasis by President Clinton on the principle of reciprocity within the group. Fred Bergsten had described earlier that under the scheme of a differential pace of

liberalisation as contained in the Second EPG Report, developing countries would receive the full benefit of the liberalisation by the industrialised countries throughout the 10 years between 2010 and 2020 (*Kompas*, 13 August 1994). However, Clinton has argued that there would be no "free riders", no "unilateral give ups" and thus, the starting date also becomes important: "... everyone would have to start at the same time because any market opening granted by one country would have to be met with equivalent concessions in other APEC countries" (*Bangkok Post*, 16 November 1994).

The Group's Liberalisation Towards Outsiders

The Bogor Declaration made the following points: (a) that APEC will not turn into an inward-looking trading bloc; (b) that the outcome of liberalisation will not only be the actual reduction of barriers among APEC economies but also between APEC economies and non-APEC economies; and (c) that particular attention will be given to trade with non-APEC developing countries to ensure that they will also benefit from the liberalisation in conformity with GATT/WTO provisions.

The above points are not unambiguous. When is a trading bloc considered to be inward-looking? A trading bloc is by definition a discriminatory arrangement and therefore, it is by nature inward-looking. A free trade area (FTA) is discriminatory, and is a trading bloc. Some APEC leaders have clearly stated their opposition to creating a free trade area in the Asia Pacific region.

President Kim Young Sam stated his strong commitment to supporting free trade

in the region on a non-discriminatory or MFN (most favoured nation) basis (*Straits Times*, 8 November 1994). Prime Minister Keating does not want APEC to become a discriminatory trade bloc since APEC's rationale is to prevent the creation of such regional trading blocs (*Times*, 4 November 1994). He favours multilateral trade liberalisation where trade barriers are lowered to all countries at once, not just other APEC members. However, he would also accept the lowering of trade barriers to APEC members first as long as no member tried to do bilateral deals with other members.

This latter option, as contained in the EPG formula, entails the creation of a "temporary" or "partial" FTA. Would this be acceptable to APEC? The EPG proposal also contains a formula whereby any individual APEC member can unilaterally extend its APEC liberalisation to non-members on a conditional or unconditional basis. This, however, amounts to a bilateral deal which Keating does not endorse. The other formula contained in the EPG proposal is the commitment by APEC as a group to reduce barriers to outsiders. In the judgment of *Economist* (12 November 1994) this would mean that barriers will come down very slowly.

The fundamental problem here, as already clearly recognised but reluctantly addressed by the leaders, is whether the group should extend its trade liberalisation to every other trading partner (on a non-discriminatory, unconditional MFN basis) or to move all the way towards forming a free trade bloc like NAFTA (North American Free Trade Area) which would extend preferences to non-members on a reciprocal basis.

The latter option "falls squarely into the

sad and unproductive tradition of treating free trade as a bargaining chip rather than as a good thing in itself" (*Economist*, 12 November 1994). In addition, in the assessment of the *New York Times* (as reproduced in the *International Herald Tribune*, 17 November 1994), the US Congress is not about to approve another NAFTA, especially if it includes low-wage countries like Indonesia and China, without insisting upon rules about environmental protection and labour conditions; this prospect would scare many APEC countries. It is generally believed, that political realities would make negotiated liberalisation within the region unlikely. However, if the region forces to take this route it may end up creating a very "dirty" free trade scheme. This is certainly not what the region and APEC is striving for.

Thus, the available option for APEC is clear. APEC's realistic role in trade liberalisation should be the reinforcement of the process of unilateral liberalisation that is already well underway. APEC members should adopt the 2010 and 2020 deadline as a target and they should try to accelerate the process of liberalisation that they undertake under their Uruguay Round commitments. Some countries do oppose any regional initiative to liberalise beyond the GATT agreements. However, APEC should seek ways to encourage its members to liberalise further and faster than those already agreed under the GATT.

Oddly enough Malaysia provides a vivid example that this route could produce free and open trade in the region without creating unnecessary strains within APEC that tend to be divisive. In October 1994, when introducing the 1995 budget, the Malaysian government announced a further tariff cutting exercise involving over 2,600 items of

which many would be reduced to zero. In early January 1995, Thailand also announced the further reduction of tariffs on around 3,000 items.

This scheme also avoids unnecessary complications with regard to APEC liberalisation vis-a-vis non-APEC developing countries. Complications may arise, for instance, if APEC liberalisation is extended to non-APEC developing countries as a group on an unconditional MFN basis, as has been proposed by Indonesia's Foreign Minister, Alatas, in the Sixth APEC Ministerial Meeting, but an APEC developing member itself makes use of the opt-out option and thus as a member is practically deprived from enjoying the benefit that is accorded to non-members.

Implementing the Bogor Declaration

APEC members must immediately formulate a strategy for implementing the Bogor Declaration. This strategy could contain programs for the short-term (1995) and for the medium-term.

The short-term measures could include the following:

- a. APEC members should document and set out their schedules for liberalisation made under the Uruguay Round and to complete the formal process of domestic decision-making which commits them to meeting the schedule;
- b. APEC members should commit to independent monitoring and review of progress towards liberalisation associated with implementation of the Uruguay Round and additional unilateral liberalisation;

- c. APEC members should commit to a priority for non-discriminatory trade liberalisation in the region to be undertaken on a unilateral basis in 1995;
- d. APEC governments should make decisions on liberalisation which exceed their minimum obligations under the Uruguay Round.

The medium-term strategy is to continue to promote sustained progress towards dismantling all obstacles to international economic transactions among APEC members through an increasingly coordinated but voluntary process which is consistent with the concept of an "open economic association" (OEA) of Asia Pacific economies.

An immediate task is to give the necessary support to Japan, the 1995 Chair of APEC, in its effort to come up with a blueprint for implementing the Bogor Declaration. It is important that the blueprint be acceptable to all but that it also promise to produce results. A unilateral, APEC-reinforced liberalisation scheme can achieve this. The reinforcement would come from further implementation of various trade and investment facilitation programs as well as concrete development cooperation programs. This latter point has been stressed in Thailand's annex of observations on the Bogor Declaration. Finally, it is important that APEC members encourage Japan to press ahead with its own liberalisation and deregulation.

Global Economic Developments: Implications for Developing Countries*

Mari Pangestu

Global Economic Trends: Implications for Developing Countries

GROWTH in the developed economies is expected to be slightly slower in the 1990s compared with the 1980s due to expectations that growth in

Japan and Western Europe will still be weak. Unemployment in Europe is expected to reach a peak of 12 per cent this year. Confidence is greater about a strong recovery in the US which is in progress at present, although concerns remain about sustainability of the strong growth. The downside risks of the industrial economies not undertaking the necessary supply side reforms with regard to trade, fiscal and labour could mean higher

*Paper presented at the Fifth India-Indonesia Conference, New Delhi, January 22-23, 1995.

interest rates, lower terms of trade for primary products, and a slower opening up of markets.

Meanwhile the growth of the developing economies is expected to rise from an average of 3 per cent to 4.8 per cent in the 1990s. The dynamic East Asian economies are expected to continue to grow at around the same rate of 7.6 per cent compared with 7.5 per cent. The main rise in the growth can thus be attributed to the newly emerging economies which are all now waving the market economy flag. Notable increases in growth are predicted for Latin America and South Asia. Even Africa and the so-called transition economies of Eastern Europe and Soviet Union are expected to post higher, albeit still low, growth. The better prospects for developing countries despite the slowdown in the industrial economies are based on the expected reforms that have and will continue to take place; increased world trade under WTO and implementation of various regional agreements such as NAFTA; continued flows of capital to the more dynamic developing economies; and stabilisation of commodity prices which have been declining for the last ten years.

While East Asia will remain the most dynamic region in the world, there will be increased competition for markets and funds from other regions which are also busy reforming and restructuring, such as Latin America and South Asia. The implications for global competition is that to attract resources to their countries, political and domestic economic stability is the crucial. The continuation of reforms become necessary and what can be observed in the East Asian region, for instance, is competition to "deregulate" such as lowering of tax rates and relaxing restrictions on foreign investment.

The *Economist* (October 1, 1994) used the World Bank forecasts to undertake an interesting, albeit crude, exercise. If the developed and developing regions were to continue to grow at those rates of growth to the year 2020, then the world economy will look much different by 2020. The top five economies in the world will no longer be developed economies and the United States and Japan will no longer occupy the number one and two position in the world economy (measured in terms of GDP at PPP). Instead China will become the number one economy in the world followed by US and Japan, and then by India and Indonesia.

Two important implications emerge out of the decline in the dominance of the developed economies in the world economy. *First*, is that the pattern of external flows of capital to developing countries is likely to change as developed countries have less funds available for soft loans and aid. The flow of funds to developing countries will increasingly come from private sector flows. *Second*, is that as is already occurring, the developed economies will feel increasingly threatened by competition from developing countries which could be translated into increased protection. Despite the successful conclusion of the Uruguay Round, the reality of the world today means that political economic factors will mean that protectionist tendencies are not about to abate.

Pattern and Prospects of External Capital Flows to Developing Countries

External capital flows to developed countries are expected to be increasingly met by private sector flows, especially foreign in-

vestment and portfolio equity flows. This is mainly because the outlook for increased aid flows is going to be limited in future. This is mainly due to rising needs for funds that is unlikely to be matched by supply from the developed countries. Rising needs come from the increase in demands from the reforming socialist economies and newly eligible (potential and actual) recipients of aid in the post Cold War period, as well as the need to address environmental problems. Meanwhile the donor countries are facing less than robust growth and their own domestic structural and fiscal balance problems. The World Bank estimates that the growth of aid from developed countries in the 1990s will be around four per cent per annum which reflects hardly any real growth. Thus, the emphasis of aid is likely to switch to issues of ensuring the quality of aid and being more directed to countries which cannot attract private capital. In focusing on enhancing the quality of aid, there will be emphasis on poverty reduction, environment, community based development and so on -- and reducing the tendency for tied aid.

What about private capital flows? In the early 1990s the trend in private capital flows has switched from debt to equity financing and from bank to non-bank sources. After recovering from the debt crisis in the early 1980s, there has been a recovery in bank commercial borrowing, notably because of the cash rich forays of Japanese banks. After the burst of the financial bubble in Japan and the world wide requirements for banks to satisfy the capital adequacy ratio, the likelihood of high growth of commercial loans to developing countries is low. On the other hand, there has been high growth of foreign direct investment and portfolio capital. However, private flows are flowing

mainly to the creditworthy developing countries, namely East Asia and Latin America so that in fact the gap between creditworthy countries is widening.

Since 1990-1993 private capital flows to developing countries has increased by 150 per cent reaching a level of \$113 billion or the level reached before the debt crisis in the 1980s. The increase is mainly in private and non-bank funds such as through foreign investment, managed portfolio investment, money market instruments, pension funds and insurance money funds. Foreign investment flows are more stable and are expected to continue to increase given the need to relocate as well as the opportunities that are available in developing country markets. The growing middle class in developing countries, especially countries such as India, China and Indonesia, are attracting all kinds of foreign interest -- from the media, to retail outlets, franchises and consumer related industries.

Portfolio flows have reached unprecedented high levels and the attraction to emerging markets has escalated as developed country fund managers look abroad for higher yielding assets, especially at the time of low US interest rates in the 1991-mid 1993 period. In 1994 we have seen some reflow back as US interest rates rose. However, the setback created by the Mexican crisis will continue to have ramifications on other emerging markets. Portfolio equity finance is especially prone to this herd instinct. Much needs to be done by emerging markets to restore confidence and highlight the differences in their situation with Mexico. Once again the lesson is clear. With integration of the capital markets, reliance on such flows of capital cannot be too high as they are vulnerable to slight changes in perceptions of

risk and that to prevent capital outflows, there is no substitute for sound domestic macro policies that ensure equilibrium real exchange rates, stable growth and a manageable deficit.

Possible Responses by Developed Economies

The likely response by developed economies is likely to be ambivalent. On the one hand, the protectionist tendencies, pushed by labour, environmental and human rights groups, will continue to be the perceived threat of competition from developing countries, especially from Asia. This is of course not a new phenomenon and as the Economist points out is "as old as trade itself". On the other hand the developed countries also see the developing countries as potential market. Growth in these developed economies means new markets and new investment opportunities. This ambivalence is clear in the extension of MFN to China by the US with the former group lobbying for the former and the business groups who have profited from doing business with China lobbying for the extension and de linking human rights from economic policy.

Most neo classical economists would argue that all can gain. The answer to better labour standards and conditions, environmental management, human rights and democracy is economic growth and they should not be linked. In any case linkage of such issues to market access will make it difficult to distinguish those links with protectionist groups. Of course the counter argument that the country in question is not likely to take action without such external pressure.

Furthermore, increased exports in one country does not necessarily come at the expense of another country. All can gain because increased exports means increased incomes and in turn increased imports. Liberalisation should benefit world welfare because the welfare of each country goes up with specialisation occurring based on comparative and competitive advantage. The real question is whether countries can make the painful adjustments to realise this. Different countries will have different adjustments to make, and groups within these economies will also be affected differently -- labour in labour intensive industries losing, but consumers gaining overall because of cheaper goods. Herein lies the main problem.

The greater share of the developing region in the world economy and their increased importance as markets for each other and for developed countries means that the link between the developed and developing countries can run the counter direction. There are two main channels through which this could occur.

The *first effect* is through increased demand. The developing region has become an important market for the industrial economies accounting for 42 per cent of US, 20 per cent of West Europe and 48 per cent of Japan exports. The old saying that when the US sneezes everyone catches a cold may also not be valid because in recent years a slowdown in the major industrial economies would be followed by a similar trend in the developing economies. What in fact occurred is the divergence in trends. For instance, the recession in the early 1990s experienced by the developed countries and which we are only coming out of now, did not affect growth in this region. The East

Asian economies, and the Latin American economies, continued to experience robust growth. The increased growth is attributed to the trade-investment nexus, increased purchasing power of markets in the region and reforms.

The *second effect* is through the supply side as lower cost manufactured products from developing countries will benefit the consumers of the developed countries; increased efficiency, productivity and innovation that is associated with increased competition; benefits from economies of scale; and financial diversification as these emerging markets offer higher returns (although higher risks as the is underscored by the recent Mexican crisis). The supply side crisis are expected to be greater.

The International Trading System in a State of Flux

The main development in the international trading environment is the ratification of GATT 1994 and the institution that will implement it -- the World Trade Organisation. In general the successful conclusion of the Uruguay Round has been hailed positively because the alternative scenario is worse. An unsuccessful conclusion of the Round would have meant greater uncertainty in the world economy and the increased tendency towards closed regionalism.

However, the battle of ensuring an open and rules based trading system has just begun and the adjustments in terms of regulations, laws, policies and the often painful restructuring will continue for the next ten years. Central to all this is of course that the WTO and GATT 1994 will be implemented in the true spirit of ensuring an open and

rules based system since literal interpretations and lack of significant commitments in some countries indicate that there could be diversions from the agreement.

The benefits of a more open trading system arising from GATT 1994 have been estimated at around \$200 billion with gains for both developed and developing countries. However, the gains vary between countries and estimates. One should be less concerned about numbers and more concerned about preparing to take the most advantage of the potential static and dynamic gains. The process of liberalisation means greater market access in the large developed country markets, but it also means that the developing countries are competing to gain a larger share of the pie. For instance, textile quotas guarantee markets, but once the quotas are removed then there will be open competition to get shares in these markets. Liberalisation also means that domestic markets will have to be opened up and domestic producers will face import competition. The main question developing countries should be asking is not how much we stand to lose or gain, but what needs to be done to prepare oneself. This implies the concrete issue of the liberalisation schedule itself since there is a ten year transition period -- how fast? how slow? It also means analysing the necessary regulatory, law and policy changes that are needed and the preparations that will be necessary to compete in the global market. It is not just about selling the cheapest product anymore, it could mean selling products that meet international standards, be it environmental or industrial. It also means being able to deal with accusations of dumping and so on.

At the same time, bilateral, unilateral and plurilateral agreements and actions will continue to take place. The developing coun-

tries as with all countries in the world will have to necessarily adopt a multitrack approach.

An important trend which has developed in the 1980s and promises to continue in the 1990s is the linking of non-economic objectives to market access as well as aid. Four new trade related issues have been identified by WTO: investment, competition policy, environment and labour standards. It is important for developing countries to participate actively in determining the outcome of these talks lest it be determined by developed countries.

What Can be Learned from the East Asian, APEC and ASEAN Experience for South-South Cooperation

Market Driven Integration vs Formal Regional Cooperation

The Asia Pacific region and especially East Asia also continues to be the most dynamic and fastest growing region in the world. Average growth in East Asia in the last two decades has averaged 7 per cent per annum and World Bank projects that in the 1990s the region will continue to grow at the highest rate compared with other regions.

The reasons as to the "East Asian Miracle" have been the subject of many studies; suffice it to say that it has been mainly due to undertaking the right policies and adjusting to adverse external environment in a timely and pragmatic way. It has not been due to any formal regional economic cooperation. However, an outcome of policies undertaken has been market driven integration with the trade and invest-

ment linkages being a central vehicle. This has been important cause of the dynamic economic development in the East Asian developing economies. Such integration does not even involve "coordination".

There has also at the same time been an increase in both intra-regional trade and investment. Intra-regional trade in the Asia Pacific and East Asian region (an important subset of Asia Pacific) has increased in the last decade and while the level of intra-regional trade at around 40 per cent is lower than that of the EC (around 60 per cent), it is similar to NAFTA. Investment inflows into as well as outflows from the Asia Pacific economies have grown rapidly, with outflows not just coming from Japan but also the East Asian Newly Industrialised Economies (NIE). Intra-regional investment flows is also high.

Apart from the US and Singapore, foreign investment inflows from other Asia Pacific countries account for more than 50 per cent of inflows. The share of APEC is much higher on average for the Asian countries (except Singapore) within APEC than for North America and Oceania. In the case of PRC, Thailand, Philippines and Malaysia, the share of APEC is more than 80 per cent. Out of the NIE, Singapore investments have been concentrated in Malaysia and Indonesia. Korean investments have been concentrated in Indonesia while Taiwanese investments have been more widespread.

There have been both push and pull factors underlying these trends. The factors pushing outward Japanese investments are well known: appreciation of the yen, rising costs and the process of restructuring of the Japanese economy. The NIE similarly experienced rising labour costs as well as appre-

ciation in their currencies. In the case of Korea, there was the addition of labour union problems. This decline in competitiveness has also "pushed" them to look for cheaper production locations. The graduation of the NIE in the mid-1980s so that they no longer receive GSP status has also been another push factor. Liberalisation of outward capital flows from the NIE was of course crucial to responding to these push factors. The outflow was most noticeable for Korea, increasing substantially from negligible amounts in the last few years.

The strategies of Japanese companies are becoming increasingly multinational and international, while those of the other East Asian economies are becoming more multinational. The latter trend arose out of necessity as well as the professionalisation and internationalisation of many family owned businesses.

The "pull" factors comprise trade and investment deregulation which substantially improved the investment climate and conditions in the developing Asian countries. In the developing Asian countries, especially Thailand, Malaysia, Indonesia and China, there was a shift from inward to outward oriented development strategy accompanied by substantial deregulation in trade and investment regulations and restrictions. These developments improved the investment climate of these countries and along with cheap labour supply, enhanced the "pull" factor of these countries for direct foreign investments.

Observations of these trends led Fung (1990) to conclude about the inevitable process of integration due to market forces: "the pace of economic integration to date has been dictated by millions of decision be-

ing made everyday by individual businesses and consumers, and I firmly believe that the process of Asia's economic integration will continue, regardless of political issues and regardless of the fate of formal inter-governmental cooperation".

Implications of the East Asian, APEC and ASEAN Experience

The first implication as stated at the outset, is that formal integration schemes have had some contribution to the development of the region, but the key to the observed economic dynamism in the region has more to do with unilateral policy outcomes. If this is the case then the relevant question to ask is how regional economic cooperation can be seen as providing both confidence and pressure for countries to undertake unilateral liberalisation.

Market driven and other formal economic integration/cooperation schemes in the Asia Pacific region has not been solely predicated on markets. That is, the aim has not been predominantly to increase intra-regional trade per se, but more based on increasing the competitiveness of each participating economy in the world market. Intra-regional trade could increase due to intra-regional investment, but the ultimate market is outside the region. Specifically in the case of East Asia, the thrust of the market driven integration that has taken place has been more the creation of a production base with division of labour in accordance with the comparative advantages of each of the countries in the region. In future of course, given the increased purchasing power in the region, the region as a market will also be an important motivation.

Given that economic dynamism in the region has more to do with unilateral liberalisation, the main issue appears to be how the region and other regions can implement their Uruguay Round commitments in the first instance. Then, one can consider how regional economic cooperation can enhance the liberalisation process so that countries will not just implement their Uruguay Round commitments but also go beyond that. This is the heart of the matter and has been brought to light with the debate that goes on within APEC.

Formal regional economic cooperation schemes have not contributed much to the economic development in each of these countries. However, regional security cooperation has led to a more politically stable and secure environment in which economic development can take place. The case in point is ASEAN. Thus, other than looking at the role of regional schemes as building blocks towards an open multilateral trading system, one should also consider the role of regional security and political cooperation in the post Cold War era.

If one agrees that regional economic cooperation of the discriminatory type, that is something other than unilateral liberalisation, is to be avoided, there is still plenty of scope for regional economic cooperation to play a role in economic development. Regionally based organisations, thin though it may be in terms of actual liberalisation in a regional way, can form a caucus in larger organisations such as ASEAN within APEC, ASEAN and APEC within GATT and so on. These caucuses have proved useful in the past and can continue to function as pressure groups to pursue the common interests of their members. Some potential areas of common interest would be ensuring the phase

out of MFA quotas earlier rather than later, limiting the use of anti-dumping measures in a discretionary way, and participating in the determination of how "new trade related issues" such as environment, labour, competition policy and human rights enter into the picture in an objective way. Therefore, caucus building can play a very important role.

The experience of AFTA supports the analysis that if there is to be regional economic cooperation, it is no longer to talk about just trade liberalisation in which only tariff liberalisation is undertaken. Given globalisation and the intricate links between trade and investment, ultimately we talk about trade and investment liberalisation. Furthermore trade liberalisation is no longer confined to liberalisation of tariffs in goods, but must also sectorally cover services and must also include non-tariff barriers. Non-tariff barriers that need to be eliminated or limited are quantitative restrictions, non-transparent restrictions including the use of standards and specifications.

Based on the experience of APEC, given the difficulty in achieving agreement by all countries and that if regional economic cooperation is to be seen as supporting or building blocks to open global trade, then it may be easier to start with trade and investment facilitation measures which will enhance trade and investment flows without the difficulties of negotiating a full blown program of trade and investment liberalisation. An evolutionary approach is what will work best and it is important to undertake the liberalisation in a non-discriminatory basis and not on a conditional MFN basis which would create discriminatory trading blocs which will undermine the global trading system.

The experience to date with APEC also indicates that regional economic cooperation need not take place just between developing or developed countries. In fact RC that is based on developing countries may be of limited usefulness given that the markets are often outside of RC and that market access to large developed country markets remains the most important way in which developing countries can maintain the development process. APEC is unique in that it is RC between developing and developed economies. The outcome is not clear as yet, however progress would be achieved if some measure towards trade and investment facilitation can be undertaken in the near future. Trade liberalisation may be some way off, but the role of APEC in ensuring the implementation of the Uruguay Round Commitment faster rather than slower will be very important. Finally, under APEC, it has also been recognised that there needs to be some specific benefits for developing countries beyond just market access if developing countries are to join the APEC process wholeheartedly. It is part of the distribution of gains process. That is the main reason that development cooperation, although we are not clear what it will translate into, has been introduced. This is the area for fruitful research

and innovative thinking that goes beyond simple donor and recipient aid relations and debt forgiveness. To work, there must be mutual gains for both the developed and developing countries in question (for example, infrastructure projects).

The experience with ASEAN and APEC to date indicate that it is important to involve the private sector actively in the process of economic cooperation as they are ultimately the agents of integration. It should be recognised that there is no homogeneous private sector and thus one has to network various private sector circles to get a representative view.

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Current Labour Issues in Indonesia

Tubagus Feridhanusetyawan

FOR the last five years, the focus of the discussion on labour issues has been on the low wages of the unskilled labour. The main concern is that the real wage

has been too small; smaller than the amount required to purchase the basic needs. Some argued that the firm has accumulated "too much profit" by exploiting workers and pay-

ing them wages lower than should be paid. Some blamed the government for the political climate that has weakened worker's bargaining power. This article presents economic discussions concerning labour issues in Indonesia. The first section will discuss the general situation in Indonesia by concentrating on the market for low-skilled labour. This is important because any discussion on Indonesia's labour issues have to consider the fact that there is an excessive supply of low-skilled labour. The second and the third sections present discussions of two popular topics, labour union and minimum wage. The fourth part will discuss the shortage of high-skilled labour and general training. It is worth mentioning that even though the main issue remains on the low wage rates, the more essential problem in the long-run lies on the quality improvement of the labour force. Indonesia's economy could not depend of cheap labour forever if quality improvements are not made.

The Market of Low-Skilled Labour

Indonesian labour market has a salient characteristic: an excess of low-skilled labour. In 1990, 80 per cent of Indonesia's total labour force had six years or less education (Note: 18 per cent had junior or senior high school education, two per cent had more than high school). This means that there were around 60 to 65 million people in the labour force who had six years or less education in the early 1990s. It is not surprising that the wage is low, first because of the excessive supply, and second because of the low skill. The average wage for all permanent production workers (*buruh produksi tetap*) in the industrial sector was around

Rp 3,000 per day in November 1989. The median earning for the group with six years or less education was around Rp 2,100 per day in 1990 (about US\$1 per day). Many studies have indicated that the wage rate, especially for the low-skilled labour, was much lower than the amount required to satisfy the basic needs. In addition, the increasing wage differential between the unskilled and skilled labour has worsen the wage distribution in the economy.

The increased pressure to lower the wage has been the result of decreasing real income in the agricultural sector, pushing the labour force out of the sector. Rural income has deteriorated in real terms because food prices are kept low to maintain "political stability". In fact, rice self-sufficiency has been achieved at the expense of declining real income in the agricultural sector. As a result, the movement of unskilled labour out from the agricultural sector rural is inevitable.

From the worker's point of view, the question is the reason why the individual is working for less than Rp 3,000 per day. Individuals will work when the wage offer he/she receive is larger than his/her reservation wage for using time in housework and leisure. The reservation wage is the minimum wage that an individual is willing to accept for work. When there is no welfare program, such as food stamps, an unskilled and low-educated individual will work for wage at any rates to survive. His/her reservation wage is probably almost zero. Any effort to raise wage rate, by imposing minimum wage for example, is difficult to implement simply because, from the supply side, many people are willing to work for less than the minimum wage.

Even though the unemployment rate is useful to make a political statement, the concept of unemployment rate is itself not without problems. By definition, it measures the ratio between the number of people who is looking for a job and the total number of individual in the labour force. It gives the information on the fraction of the labour force that is unemployed and tells us a little about the population that is employed. Individuals who are not actively searching for a job, including those who could not find a job and gave up, are not counted among the unemployed. Also, the unemployment rate does not tell anything about the earning levels of those who are employed, including whether or not their earning exceed the poverty level. Therefore, any unemployment statistics in Indonesia should be interpreted carefully.

From the demand side, the question is clear: how to provide employment for millions of people with less than six years of education. So far, manufacturing, mining, and transportation sectors had played major roles in absorbing the growing and massive supply of labour. Many studies have shown that the situation in the near future does not look favourable. It is predicted that the growth of the labour force will outstrip the growth of employment within the next five years. The worst situation is in the market of high-school graduates. This unfavourable projection leads to several consequences. *First*, the government should provide a supportive climate for employment creation, especially in labour intensive industries with low to medium level of technology. Self-employment should be encouraged and supported by some policies that provides incentive for individual to be self-employed. *Second*, the issue of low-wage rates will remain

unless the economic growth is strong enough to increase the demand for labour.

The argument that the firm has the power to set wage rates is often used to make a political statement in favour of workers. It might be true when there is monopsony (only one firm that purchases labour services) in the market. In a competitive economy, however, firms pay market wage determined by the labour market. A firm's behaviour is simple: maximise profit given all available information and anticipated constraints. The firms internalise all the normal, direct and indirect cost, and the transaction costs into their optimisation processes. For them, the large supply of low-skilled labour, the weak labour union, the non-existence of the mechanism to resolve labour related conflicts, the available labour law and it's enforcement, the behaviour of the government, and the market structure of firm's output, are seen almost perfectly. Based on this information, given the technology, and other external conditions, the firm develops its cost structure. It is believed that the political climate and the government's policy on labour relations has been on the side of the firm for the last 20 years. This makes the firm look "immoral" when exploiting the situation to maximise its profit. The main issue is: why the labour policy has created a climate where firms have a lot of power in determining wages. It is a contradiction that the government often blames the firm for setting the low wages, while at the same time allowing the firm to do so.

The firm's rational optimisation behaviour will adjust to any changes in the economy. Take the case of the implementation of minimum wage policy (that is higher than the prevailing market wage). When

there is no incentive provided (by the policy) to maintain employment level, the first strategy is to explore possibility to increase worker's productivity through a better management and more efficient production. In competitive industries, a firm has to compete with others to allocate and use their resources to achieve the most efficient production. When the situation is competitive enough, every firm in the industry will operate with the same efficiency. Otherwise, it will shut down. When increasing efficiency is impossible, firm will adjust its demand for labour. Remember that in low-technology industries, elasticity of substitution between labour and capital is likely to be large. This means labour is easily substituted by non-labour input such as machine services. When the increase in workers' productivity is out of question, there is an increase in pressure to reduce the level of employment in the low-skilled industries. Therefore, any policy to increase minimum wage should be supported by any policy that maintains the level of employment.

The statement that firms accumulated too much profit by exploiting labour should be interpreted carefully. A firm's profit is more likely determined by the market structure for output (or product) rather than inputs or factors (for example, capital and labour) markets. In a competitive economy, firms cannot make more than normal profits. However, firms can accumulate more than normal profit when monopoly power is permitted or the firms have access to unique resources, for example, locational advantages, technology. Rather than blaming the firms because they accumulated profits more than "it should", the government should improve the level of competition in the economy. It is another contradiction that on the one hand the government has accused the

firm for accumulating too much profit, while on the other hand the government permits unnecessary monopoly practices in the economy. Once again, to reduce "firm's excessive profit" and to increase efficiency within firm, the government should promote the competition at all levels. The issue is whether the government is allowing firms to make "too much" profit by permitting unnatural or imperfect competition between firms and unnecessary monopoly practices.

Labour Union

Labour unions are collective organisations whose primary objectives are to improve the pecuniary and non-pecuniary conditions of employment of their members. Generally, unions are classified into two groups: industrial union representing most or all the workers in an industry or firm regardless of their occupations, and craft union representing workers in a single occupational group. Unions reach their goals, mainly, through collective bargaining. Collective bargaining typically covers a much wider variety range of issues than simply the issue of wage rates.

It is still debatable whether union increases productivity and output. Even though unions may improve the welfare of their union member, the traditional neo-classical view argues that the overall effects on the economy are negative. *First*, there will be loss of output because unions succeed in driving a wedge between the wage rates of comparable-quality workers in the covered and uncovered sectors. *Second*, union-related contracts could limit the firm to allocate capital and labour in the most efficient ways and therefore may cause output

loss. *Third*, strike that may occur during the process of collective bargaining would result in loss of workdays.

Recently labour economists have found some possibilities for unions to have a positive influence on productivity. *First*, a union provides workers with direct means to voice their discontent to firm's management and therefore reducing voluntary turnover. *Second*, by raising economic rewards of employment and providing a grievance mechanism, unions may increase workers' productivity. Some studies have shown that, indeed, union workers are more productive than non-union workers. One might argue that unions will raise the overall wages. However, one must remember that unions usually raise wages of their members relative to those in the non-union sector. Higher wages will be associated with reduced employment unless other services rendered by unions offset this rise in labour costs.

The labour union issue in Indonesia is more political rather than economic. The issue is politically sensitive because the political climate is not supportive for any mass action, including labour movement, that could create "political instability". The government of Indonesia took control over the labour union by establishing a single government-backed labour union. Any conflict between firms' management and workers should be resolved in the so-called *Hubungan Industrial Pancasila* which is loosely interpreted as partnership in peace and harmony.

Recent criticism concerning labour rights and labour working conditions, including those from international labour organisation, is valid. The criticism has focused on the right for workers to organise themselves

and to bargain collectively. The prevailing wage that is lower than the standard to satisfy basic needs is also a genuine concern. *First*, workers have suffered from low wage rates, and *second*, workers have been politically powerless. In one sentence: they feel "hungry" and "insecure". The government has to respond to growing worker dissatisfaction about labour policy. Oppressive measures to stop labour movement, sooner or later, could back-fire.

Despite the unsupportive political climate, from an economic point of view, the union is inherently powerless when there is excess supply of labour. Strikes will not work because replacement workers are cheap. Therefore, any movement toward unionisation in developing economies, including Indonesia, may have a difficult time simply because the supply of workers is larger than the demand. However, if labour union had large enough political power, such as in Europe, excess supply of labour would not necessarily reduce labour union's bargaining power.

Minimum Wage

Minimum wage rates are designed to ensure each worker a reasonable wage for his/her work effort and thus to reduce the incidence of poverty. The minimum wage is determined based on the standard of basic needs, general price level, local cost of living, and type of occupation. The discussion is relevant only when the minimum wage is binding or is lower than the prevailing wage in the market. This usually occur in the market of unskilled labour. In the country where the supply of low-skilled worker is abundant such as Indonesia, problems related to min-

imum wage issue will never disappear. The standard analysis is that the higher minimum wage, compared to the market clearing wage, would lead to unemployment. Most studies on minimum wage policy has focused on it's effect on firm's behaviour and unemployment. However, the question on whether the rise in wage may lead to an increase in productivity remains unclear.

One starting point is the distinction between nominal and real wage. The minimum wage is commonly set in nominal terms, while firms and workers decisions are based on the magnitude. For example, for a given price level, the minimum wage is set such that in real terms the wage is higher than the market clearing wage. In the short-run, the immediate impact is to decrease employment and increase unemployment. Over time, the government may take actions to stimulate the economy in the hope of reducing unemployment. This means expansionary monetary or fiscal policies that may increase the general price level. As the general price level goes up, the real wage goes down and the overall level of employment increases. Therefore, when the immediate impact of the minimum wage is to decrease employment, in the long-run the employment reduction is eliminated at the expense of a higher price level. It is not surprising that everyone complains that the increase in the minimum wage cannot keep up with the rise in the general price level (inflation) over time.

Another issue is related to covered and uncovered sectors. When a minimum wage is imposed for a covered sector, all (unskilled) workers will prefer to work there. However, the increase in wage in the covered sector may lead to a reduction in employment. Some workers who previously had, or would have found, jobs in the covered sector might

have to find jobs in the uncovered sector. Workers who lost their jobs in the covered sector will add to the supply of workers in the uncovered sectors, and therefore, increase pressure to lower wages there. A partial coverage of minimum wages produces both winners and losers. Therefore, the social cost depends on which sector is larger.

Some argued that, despite the social cost, the implementation of a minimum wage policy in Indonesia is necessary because the prevailing wage is lower than the minimum required to purchase basic needs. In addition, the minimum wage does not necessarily have to reduce employment because the firms do not operate at their full level of efficiency. In other words, the increase in wage could lead to a better resource allocation by the firm's management. The question on whether the higher wage could lead to higher productivity is still debatable. It is believed that in developing countries, higher wages might improve health and nutrition standards, and therefore, enable workers to work more productively. Only when workers' effort is positively correlated with their wages, and the output is a positive function of effort, this argument might be true.

We must realise that firms are rational and maximise their profit given any observable constraints. Firms internalise a minimum wage policy into their optimising behaviour. Therefore, any policy to increase the minimum wage should be supported by some incentives for firms to maintain employment. Despite all economic discussions on the effect of minimum wage, the main issue of minimum wage policy in Indonesia is enforcement. To date the government's control over firm compliance with min-

imum wage laws has been minimal. Many cases have shown that firms are able to "buy" the punishment from not paying the minimum wage, the firm, being rational internalise the cost of buying "the penalty" into its cost structure.

The Shortage of Skilled Workers and the General Education or Training

In the country of 190 million people, the last problem to worry about is a shortage of labour. However, many Southeast Asian countries including Indonesia, have suffered from a shortage of skilled labour for the last ten years. In some countries, especially Malaysia and Thailand, the shortage of skilled workers has threatened to constraint economic growth. The inevitable transformation from industries dependent on cheap labour to higher technology industries creates an urgent need for more skilled labour. The result is sky-rocketing salaries for skilled workers such as managers and engineers. Indonesia is facing the same problem. Education is not keeping pace with the growth of industrial needs. The problem has become so serious that in the near future it may put economic growth at risk.

It is important to follow the policy concerning labour mobility in Asia. Some Asian countries, including Indonesia, have begun to discuss ways of facilitating the smooth international movement of labour due to rapid economic growth. When labour is more mobile between countries, labour will flow from a country with an excess supply of labour to another with an excess demand. Indonesia has experienced an excess supply of unskilled labour and an excess demand of skilled labour. With the increase in labour

mobility, Indonesia could become a major exporter of unskilled labour and big importer of skilled labour.

Experience is sometimes a substitute for formal education. There is growing tendency that skill is created within the market. The growth of computerised industries creates as great demand for computer technicians, who are not necessarily a computer scientist. Financial deregulations in the late 1980s led to a boom in the financial sectors. Inadequate domestic supply of high quality financial managers has forced the expanding companies and banks to import their managers from abroad. The issue is the need for education, or school system, that gives a quick respond to the change in labour demand. When the general education is low, increasing the average level of general education is important. However, one must not forget that the main goal is to prepare the labour force to be able to adjust to rapid changes in technology and to take advantages of new technological opportunities.

Because of budgetary constrains, many developing countries depend on the private sector's involvement in education and training. Indonesia should follow the same strategy. This could be done in the form of privatisation package that includes incentives such as tax break, low interest loan for private sector investing in private school, vocational-training programs, and more universities. In Thailand, the tax law that would make donations to private schools tax deductible has worked very well. Public vocational-training program has not been successful, and therefore, participation of private sector in this field is urgently needed. The need for a reform in the education system is crucial, otherwise Indonesia will always specialise in low-technology labour intensive industries.

Conclusion

The Indonesian labour market is characterised by a massive supply of low-skilled labour. Naturally, the wage rates are low. The concern exist for the low standard of living of a large share of the population. The situation may become worse because the political climate has created the situation where the workers are politically powerless. The future is not promising because the predicted growth of the economy is not strong enough to overcome the growth in unskilled labour supply.

Any policy to improve the level of wage rates should consider the nature of the labour market in the economy. A policy which leads to market distortions should be supported by measures to reduce the social cost. Apart from the enforcement issue, the implementation of any minimum wage laws should consider the effect on employment. The possible side effects on the uncovered sectors should also be considered. Increasing the level of competition among firms in the economy is also very important.

In the near future, the issue is how to provide employment for 80 million people in the labour force, 65 million of which have six years education or less. In the long-run, the question is how to improve the quality of labour force to compete with other Asian countries. Rapid growth of industrialisation in Asia, including Indonesia, has led to increasing demands for more able workers. What seems to be important is the more responsive education curriculum and system to changing demand for labour. More participation of the private sector is needed.

In addition to economic policy, the government should review its policy on labour relations. Whatever the policy, it should include some measures to increase worker's confidence and trust in the government and the political system by providing more freedom for workers to fight for their rights. The image that the state has been on the side of business would lead to the erosion of trust. Any oppressive actions in resolving labour relation conflicts should be avoided. Finally, there should be an institution that truly represents worker's interest in the economy.

ASEAN Economic Cooperation: The Long Journey to AFTA

Hadi Soesastro

Introduction

THE poor performance of ASEAN economic cooperation (AEC) was seen to have been caused by its lack of a focus (Djisman S. Simandjuntak, 1988). Today, AFTA, the ASEAN Free Trade Area, is widely regarded as the focus of AEC. It remains to be seen, however, whether AFTA is the right focus for AEC.

The history of AEC is that of a continuous search for direction and new initiatives to make AEC successful. The search has been confronted with the following choices for AEC's focus: between intra-ASEAN cooperation and developing an external economic diplomacy in dealing with ASEAN's major trading and economic partners; between resource-pooling activities and market-sharing schemes; between trade and investment cooperation and sectoral projects; between public sector-oriented projects and private sector-driven activities; and finally, between economic integration, in-

cluding the creation of a trading bloc, and a loose, non-binding cooperation scheme.

In the course of this search a series of major initiatives have been taken: the ASEAN Industrial Project (AIP) in 1976, the ASEAN Preferential Trading Arrangement (PTA) in 1977, the ASEAN Industrial Complementation Scheme (AIC) in 1981 and later its modified scheme, namely the ASEAN Brand-to-Brand Complementation (BBC), as well as the ASEAN Industrial Joint Ventures (AIJV) in 1983. In addition, there were proposals for an ASEAN Small and Medium Industries Scheme (ASMI) and an ASEAN Small and Medium Industries Centre (ASIC) that did not come off the ground.

Other economic cooperation projects were launched and implemented by the various ASEAN economic committees: on Finance and Banking (COFAB), on Food, Agricultural and Forestry (COFAF), on Industry, Minerals and Energy (COIME), on Transport and Communications (COTAC), and on Trade and Tourism (COTT). Fur-

thermore, ASEAN developed a number of cooperation activities with its trading partners, the Dialogue Partners (Australia, Canada, the European Union, Japan, New Zealand, and the United States) and Sectoral Dialogue Partners (Korea, China, and India). Some of these have involved the search for a more formalised framework for cooperation, such as the ASEAN-US Initiative (AUI).

Evaluating the results, outcome, pay-offs, benefits or effectiveness of all these activities is not an easy task and requires a clearly defined set of criteria. The economic performance of the ASEAN countries over the past 20 years or so is not seen to have resulted from AEC, but rather due to their trade and investment links with the outside world. The PTA, for example, has not increased the proportion of intra-ASEAN trade in ASEAN's total trade. To some observers, therefore, AEC has been a disappointment or, simply, a big embarrassment. However, it can be argued that the various AEC schemes and projects may have contributed to creating the habit of cooperation, which is essential to the success of ASEAN. It is also doubtful that without the experience of and frustrations in AEC the ASEAN leaders would have decided in 1992 to embark on AFTA, the "bold" decision that was considered necessary to maintain ASEAN's vitality and relevance.

This paper is a brief review of the long journey to AFTA which may shed some light on the dynamics of AEC in particular and ASEAN cooperation in general. The concluding section will make some preliminary remarks on how AEC can cope with the extension of membership to other Southeast Asian economies.

The Evolution of ASEAN Economic Cooperation

The Bangkok Declaration of 1967 which founded ASEAN gives emphasis to economic, technical and social cooperation. As stated in the Declaration, ASEAN's central objective is to accelerate economic growth through joint endeavours. However, in its early years ASEAN only made slow progress in these areas as it was more preoccupied with political and security issues.

The agenda of AEC in the late 1960s was focused on sectoral cooperation. In the second ASEAN Ministerial Meeting (AMM) held in Jakarta in 1968 a work program was approved in each of the following priority areas of cooperation: food production, communication, shipping, civil aviation and tourism. The modesty in initiating projects was only short-lived. By the time of the fourth AMM in Manila in 1971 a total of 121 projects were already submitted, but only 48 had been approved for implementation.

The proliferation of project proposals appears to be a common phenomenon in cooperative structures based on committees. Sooner or later, it will be recognised that some rationalisation effort is necessary. In ASEAN there was also the concern that implementation of projects was too slow. At the fifth AMM in Singapore in 1972 Indonesia submitted a paper entitled "A Reflection", inviting ASEAN members to undertake an evaluation of AEC. This led to the formulation of a set of criteria for determining the feasibility of AEC projects: they should be quick yielding with benefits accruing to all members equally, require modest financing, and meet the ASEAN objectives as embodied in the Bangkok Declaration. These guidelines reflected ASEAN's prefer-

ence for small projects (C.P.F. Luhulima, 1987).

However, efforts to rationalise projects may also require an overarching framework for cooperation. In its search for such a framework ASEAN had made use of the recommendations of the UN-sponsored Kansu-Robinson Report. This report was prepared at the request of the AMM in 1969 and was presented also to the fifth AMM in 1972. The Report's main thrust is on ASEAN cooperation to increase economic productivity through industrialisation. It pointed out to the limited size of ASEAN's national markets, its low per capita income and the enormous obstacles to expanding manufactured goods exports. Therefore, it argued that AEC should foster import substitution through the development of infant industries on a regional basis.

Three main instruments for promoting AEC were identified; these were: (a) negotiated trade liberalisation in selective commodities; (b) industrial complementarity agreements to be negotiated through the initiatives of the private sector; and (c) package deal arrangements in the form of joint industrial projects. Furthermore, the Report also suggested other areas for cooperation including research, coordination of national economic plans, provision of services in finance and clearing arrangements, and financing of development and insurance facilities.

Initially, the recommendations of the Kansu-Robinson Report did not receive any formal endorsement. The seventh AMM in 1974 simply acknowledged that the three proposed instruments (or techniques) of cooperation might be useful for AEC. Disappointment with the slow implementation of

AEC projects had led the seventh AMM to propose a meeting of ASEAN Ministers in charge of economic planning. In a lead-up to the planned ASEAN Summit in Bali in 1976, the ASEAN Economic Ministers met for the first time in 1975 in Jakarta with a sense of urgency to produce broad recommendations for AEC. The economic ministers quickly created their own machinery, the Senior Economic Officials Meeting (SEOM). The recommendations that were produced for the Bali Summit drew heavily on the Kansu-Robinson Report. Indeed, major ASEAN initiatives that were launched in later years can be directly traced to the recommendation of that Report.

Cooperation in Trade

The ASEAN PTA was introduced in 1977 at the tenth AMM and marked the first commitment of ASEAN countries to joint preferential trade liberalisation. The scheme proposes to liberalise trade through the implementation of five measures; these are: (a) the granting of tariff preferences; (b) long-term quantity contracts; (c) preferential terms for the financing of imports; (d) preferential procurement by government agencies; and (e) the liberalisation of non-tariff barriers in intra-regional trade.

Of these five measures only the granting of tariff preferences was implemented widely. As it is not aimed at the achievement of a free trade area, the PTA was a modest undertaking. It also is important to note that the PTA was designed as a mechanism whereby intra-ASEAN trade could be liberalised at a pace that was acceptable to all member countries (Pearl Imada, 1993).

The margin of preferences (MOP) was initially set at a low 10 per cent. In 1981 it was raised to 20-25 per cent and later on to 40 per cent or more. Until April 1980 preferences were negotiated on a voluntary, product-by-product basis, either multilaterally or bilaterally, and were extended on an ASEAN MFN (most favoured nation) basis. After April 1980, tariff preferences were complemented by across-the-board tariff reductions for imports of certain values. Initially, items with an annual import value of less than US\$50,000 in 1978 trade statistics qualified for tariff reductions of 20 per cent across the board. Subsequently, the cut-off ceiling was raised to US\$500,000 in May 1981 and to US\$1 million in January 1982. In November 1982 the ceiling was further raised to US\$10 million, a cut-off limit which represents a significant proportion of trade volume or about 10 per cent of all intra-ASEAN trade then.

However, with the adoption of across-the-board tariff cuts member countries also introduced an exclusion list of "sensitive items" as a means to protect certain industries. As can be expected, the exclusion list tended to undermine efforts to broaden the coverage of items. For instance, Indonesia and Thailand excluded 54 and 53 per cent, respectively, of their total items from the across-the-board tariff cuts. The respective figures for Malaysia was 37 per cent, the Philippines 25 per cent, and Singapore 2 per cent. (Ooi Guat Tin, 1987). In July 1985 member countries agreed to review their exclusion list and classify "sensitive" items into three categories: non-sensitive items, as those which are not in accordance with the criteria and are subject to voluntary withdrawal from the exclusion list; semi-sensitive items, which are subject to negotiation; and

sensitive items, which are not subject to negotiation.

By March 1986, a total of 18,907 items had been placed under the PTA. However, the impact on intra-regional trade had been minimal. Empirical studies showed that the effect was within the range of 0.06 to 5.2 per cent of intra-regional trade (Sahathavan Meyanathan and Ismail Haron, 1987). As Ooi (1987) had argued, the MOP offered on most of the items traded was too low to provide ASEAN exporters a strong competitive edge over non-ASEAN exporters. For instance, a 20 per cent cut on a 40 per cent tariff gives the ASEAN exporters no more than an 8 per cent advantage over their non-ASEAN competitors.

In their survey, Meyanathan and Haron (1987) found that the limited effects of the PTA could be traced to the following: (a) due to differences in tariff levels, high tariff countries were reluctant to cut tariffs because of perceived inadequate reciprocity from low-tariff countries; (b) there was a tendency to offer irrelevant items (such as snow ploughs and nuclear reactors) or to disaggregate one item detailed variants, each one being offered as a single commodity; (c) the rules of origin requirement was an inhibiting factor since products had to contain at least 50 per cent ASEAN content to qualify for preferences; and (d) the long exclusion lists maintained by member economies.

The third ASEAN Summit in Manila in 1987 agreed to retain the PTA as the principal instrument to promote intra-regional trade, but significant changes were made. *First*, the exclusion lists are to be reduced to no more than 10 per cent of the number of traded items and/or 50 per cent of the value of intra-ASEAN trade. *Second*, new items

are to be phased out of the exclusion list into the PTA with a minimum MOP of 25 per cent. *Third*, the MOP is deepened to 50 per cent for items already included in the PTA on the basis of an across-the-board concession of 5 percentage points per year or product-by-product concessions. *Fourth*, the ASEAN content requirement in the rule of origin is to be reduced on a case-by-case basis. *Fifth*, an immediate "standstill" of non-tariff barriers (NTBs) is to be accompanied by a negotiation for a "rollback" of such NTBs.

These measures were to be implemented within 5 years, with annual reviews being undertaken to monitor the progress. This was the first time, that ASEAN had set for itself a definite timetable. The changes were also meant to introduce greater transparency and predictability of the PTA scheme and to accommodate the differences in tariff levels and development stages (Mohammed Ariff, 1992). As it turned out, these changes did not appear to have had an effect on PTA's contribution to intra-regional trade.

Cooperation in Industry

ASEAN industrial cooperation schemes include AIP, AIC (and BBC), and AIJV. Their performance has been equally disappointing.

The AIP scheme was agreed on at the Bali Summit in 1976. It is based on the recommendations of the Kansu-Robinson Report. AIPs are large-scale government-initiated projects oriented towards the regional market, with an investment of US\$300-400 million. The output of the projects is granted access under the PTA. According to the Basic Agreement establishing

AIP, the host country takes up 60 per cent of the total equity (1 per cent in the case of Singapore) and the remaining 40 per cent shared out equally among the other members. The private sector in the host country could take up equity participation of up to 40 per cent. It was also agreed that up to 70 per cent of the infrastructural costs of the projects could be financed by foreign loans.

The *first* "package" of five industrial projects included: urea for Indonesia and Malaysia, superphosphate for the Philippines, diesel engine for Singapore, and soda ash for Thailand. The original idea was that one kind of a plant will be built to serve the regional market. Ultimately only two of these five projects were implemented, one of which -- the Aceh fertiliser project in Indonesia -- being a national project that was made into an AIP.

A *second* package of AIPs had also been identified for pre-feasibility study. They included: heavy-duty rubber tyres for Indonesia, metal working machine tools for Malaysia, newsprint and electrolytic tin-plating for the Philippines, TV picture tubes for Singapore, and potash and fisheries for Thailand. Singapore originally contemplated a hepatitis B vaccine project which was cancelled due to changes in the economics of the project. None of these AIPs came off the ground.

Many reasons have been given for the failure of AIP. There was the view that governments were not willing to relinquish their freedom to invest. In addition, the AIP is characteristic of a planned economy which the ASEAN countries are not. And, as suggested by Hans Blomqvist (1993: 58), "it is difficult to come up with well-based arguments in favour of supranational govern-

ment-led industrial location anyway." Chee Peng Lim and Jang-won Suh (1992) have given additional reasons. They argued that the AIP scheme places too much emphasis on market sharing which ASEAN members were not ready to accept. In addition, apart from PTA concessions no other forms of incentives were given. Finally, the private sector was not given any substantive role.

With the problems and difficulties of implementing the AIP scheme, the focus of ASEAN industrial cooperation shifted to industrial complementation. The AIC scheme was established in 1981 with the aim of allocating different production stages of an industry among ASEAN members. The Basic Agreement establishing AIC stipulates that: (a) an AIC package must be participated in by at least four member countries; (b) identification of products for inclusion in an AIC package shall be done by the ASEAN Chambers of Commerce and Industry (ASEAN-CCI); and (c) the products in the AIC package shall receive "exclusivity privileges", lasting for two years for existing products or three years for new products.

In total about 30 AIC proposals made by various regional clubs of the ASEAN-CCI were brought for consideration, most of which involving new products. However, only two AIC packages, both in the automotive industry, have gone through the whole exercise and received the approval of the ASEAN economic ministers. The first package, involving existing products, was launched in 1983 and involved the production and distribution of automotive parts and components. It consists of the following:

Indonesia : Diesel engines (80-135 horsepower), motor-cycle axles,

wheel rims for motorcycles;
 Malaysia : Spokes, nipples, drive chains for motorcycles, timing chains for motor vehicles, crown wheels and pinions, seat belts;
 Philippines : Body panels for passenger cars, transmissions/transaxles, rear axles;
 Singapore : Universal joints, oil seals, and v-belts;
 Thailand : Body panels for commercial vehicles of one ton and above, brake drums for truck, heavy duty shock absorbers, stabilisers, bumpers, and trunion brackets.

Another package in the automotive industry was contemplated and was to have the following allocation: steering systems for Indonesia, headlights for motor vehicles for Malaysia, heavy duty rear axles for commercial vehicles for the Philippines, fuel injection pumps for Singapore, and carburetor for Thailand. However, this package was never agreed upon. The result of the first package was poor, largely because of a lack of compatibility of production facilities in the ASEAN countries; the different plants were geared to make different brands and types of vehicle. According to Blomqvist (1993: 59), "the basic problem was that there was no reason why the markets could not take care of the issue, except for existing trade impediments" and that government intervention was used as a substitute for eliminating trade barriers. The effect on intra-regional trade was found to be negligible, in the order of US\$1 million. In addition, the cost incurred by realising this project might have exceeded the benefits.

To improve on the scheme, the second AIC, which is based on BBC, namely involving production of particular brands, was approved in 1988. A 50 per cent MOP is given to BBC products, and the private sector is free to determine the location of production across countries. The BBC provides incentives for Japanese MNCs to relocate production capacity to lower cost ASEAN centres. The scheme incorporates an explicit reciprocal element in the sense that components are exchanged between countries, all benefiting from preferential access. The major drawback of this BBC scheme is Indonesia's decision not to participate out of a concern to protect its own automotive industry and market. Singapore and Brunei also opted out. In 1991 the scheme was extended to include non-automotive products.

In 1983 another scheme for ASEAN industrial cooperation was introduced. This so-called AIJV is aimed at promoting industrial joint ventures among ASEAN investors. It was designed to be more flexible and decentralised than both the AIP and AIC. The basic rules of the AIJV have undergone significant modifications over the years with a number of restrictions removed and greater incentives (tariff preferences) were given. By the early 1990s, they contain the following guidelines: (a) participation in an AIJV comprises at least two ASEAN countries; (b) an AIJV must be situated in one of the participating ASEAN countries; (c) non-ASEAN equity of up to 60 per cent is allowed; (d) in order to qualify for tariff preferences, the AIJV product must satisfy the PTA's rules or origin requirements; and (e) participating countries grant a 90 per cent MOP for the AIJV product for a period of four years. This period can be automatically extended up to a maximum period of eight

years. Tariff protection is conferred by requiring participating ASEAN countries to freeze their tariffs on products similar to those produced by the AIJV for a period of four years.

An exclusivity privilege which prohibited the establishment of production capacity for similar products to those made under AIJVs in participating countries was withdrawn in 1990. From 1983 to 1993 a total of 26 products have been granted AIJV status, of which about half involve the participation of two ASEAN countries and only one (Nestle processed food) was an ASEAN-wide project involving five ASEAN countries.

The impact of the AIJV scheme on intra-regional trade and investment has been negligible. Although on paper the procedure for getting approval has been simplified at the third Summit in Manila, among other things by establishing a list of pre-approved AIJV products, in practice many difficulties are still being encountered. For instance, many projects could not obtain the 90 per cent MOP from participating countries. On the whole, ASEAN investors seem to prefer joint ventures with partners from outside the region, and most of the joint venture projects among ASEAN investors are outside the AIJV system. As argued by Blomqvist (1993), the AIJV program can be considered a free trade substitute, because trade liberalisation would render such a cooperation program redundant.

Another area of AEC which supports industrial cooperation is the ASEAN Finance Corporation (AFC), which provides financing facilities for regional cooperation projects or other ASEAN-based enterprises. The AFC was incorporated in Singapore in 1981 and its issued capital of S\$100 million is

owned by commercial banks from the ASEAN countries. The AFC provides a number of services. Its direct financial services fall into 3 categories, namely: (a) project finance, i.e. standard medium and long-term lending; (b) debt/equity participation, i.e. provision of equity capital and participation in the issue of debt; and (c) treasury services, which include provision of short and medium term credit to ASEAN financial institutions, provision of intra-ASEAN trade finance, and foreign exchange dealings. The AFC also serves as a conduit through which international financial resources outside the region are channeled to the region for development.

In his evaluation of ASEAN cooperation in industry Chee Peng Lim (1987) lists a number of problems. He pointed out to the fact that the various schemes of cooperation ignore the reality that most manufacturing enterprises in the ASEAN countries are small scale. Also, the schemes put too much emphasis on regional import substitution instead of export-orientation. The schemes suffer from problems related to project identification and allocation. In addition, there were many problems related to implementation and a number of ASEAN industrial projects were plagued by financial problems. Finally, the private sector was getting disillusioned with the schemes.

Other Areas of Cooperation

ASEAN cooperation in other areas has been promoted and implemented by a host of committees and sub-committees within the ASEAN structure. A comprehensive assessment of these cooperation programs remains non-existent. A description and casual

evaluation of such cooperation programs in specific sectors are found in the volumes compiled by Noordin Sopiee et.al. (1987) and K.S. Sandhu et.al. (1992). No doubt, a great deal has been attempted, and the many projects have over the years involved the participation of an ever larger group of ASEAN bureaucrats and perhaps also a larger fraction of the population at large.

Based on evaluation of cooperative endeavours in the field of energy, for instance, Shankar Sharma (1992) concluded that the impact of the various committees had been limited. This could result from either the ASEAN's organisational structure or the insufficient attention given to those issues at the high official levels. This issue certainly deserves ASEAN's serious attention.

Perhaps there is a need to put the various intra-ASEAN economic cooperation programs into a single overarching framework or a system that would allow their results to be elevated more effectively to the higher decision making levels in the ASEAN capitals. Some programs, such as the Food Security Reserve System, the ASEAN Petroleum Security Agreement or the ASEAN Swap Arrangement can each stand on its own.

ASEAN's extra-regional cooperation activities may suffer from a similar deficiency in structure. These activities, sometimes known as the ASEAN Dialogue Partner System (ADPS), appear to lack some coherence. As stated by Blomqvist (1993: 59), "[this] system does not, as is the custom in ASEAN, delegate decision power to supra-national organs, but requires the governments of the ASEAN countries to find areas of mutual interest to raise in the discussions with the trade partners." Some dialogue

partners may have the same concern with the ability of the system to produce some coherent outcome. This has led to the search for a framework of cooperation between ASEAN and the United States. The ASEAN-US Initiative (AUI), however, has not produced tangible results as yet. An ASEAN-EC (or ASEAN-EU now) framework agreement exists and regular ministerial meetings are held. Their effectiveness is not immediately obvious.

Perhaps most of activities is nowadays concentrated on the so-called Post-Ministerial Conference (PMC), held after the annual AMM. An important substance of the "dialogue" is the question concerning market access. ASEAN's success in improving market access through this system has been questioned. The results of this exercise, however, have been perceived differently by various observers. There is the view that the utility of this system is that it provides a forum for discussions between ASEAN member countries and their major trading partners. This is now largely taken over by APEC (Asia Pacific Economic Cooperation). Others argue that the system has been conducive to raising the profile and status of ASEAN in an international context.

The Manila Summit and Beyond

The third ASEAN Summit held in Manila in December 1987 has its important place in the history of AEC. As stated by Ariff (1992), the summit has helped ASEAN to take a hard look at itself. The main focus of the Summit was intra-regional economic cooperation. This Summit received proposals that were drawn from an array of schemes suggested by the private sector (the

Group of Fourteen), ASEAN business groups, ASEAN scholars and academics and studies commissioned by the different ASEAN economic committees (Florian Alburo, 1992).

The proposals included the formation of a hybrid system that recognises the existence of varying tariff structures and differing levels of development among the ASEAN members. This system combines the formation of a customs union among Indonesia, Malaysia, the Philippines, and Thailand, and a free trade area to link this union with Singapore and Brunei. A proposal for an "ASEAN Market Liberalisation Initiative" was supported by the ASEAN-CCI. This initiative proposed a 50 per cent minimum MOP on an across-the-board basis for non-agricultural products and the elimination of the exclusion lists. A product-by-product approach was suggested for the liberalisation of agriculture.

The COTT-commissioned study recommends quantifiable targets to achieve an "ASEAN Trade Area" by the year 2000. Under this proposal, 90 per cent of total ASEAN trade would be under preferences by the year 2000, and a reduction in the exclusion list to 20 per cent of import volume. In addition, greater cooperation in industrial joint ventures and the establishment of an ASEAN Development Bank were proposed as complementary measures to trade liberalisation.

The Manila Summit itself did not produce a "big bang" but rather it preferred to strengthen existing AEC programs, particularly the PTA and the AIJV. The proposals to do so involve maximum liberalisation that could realistically be achieved at the time. As stated by Alburo (1992), the Summit eco-

conomic schemes, minus the "free trade", "customs union", or related jargon, aim at the same integration vision. It is perhaps appropriate to view the Manila Summit as the last stop in ASEAN's long journey to AFTA. However, it is unlikely that this was already realised then.

Prior to the Manila Summit there was an urgency to seek for a breakthrough in intra-AEC as a response to the adverse effects of the world recession on the ASEAN economies. As pointed out by Mari Pangestu et al. (1992), by 1987, however, all the ASEAN countries had recovered, which led to the waning of the urgency to push for intra-AEC. But then, in 1990 there were renewed calls to introduce new and bold initiatives. These were found necessary in order that ASEAN could respond effectively to market forces that are increasingly driving intra-regional trade and investment. However, the international economic situation, as characterised by the slow progress in the GATT Uruguay Round multilateral trade negotiations, EC's Single Market Act, and the NAFTA negotiations, may have been a major factor in ASEAN's determination to hasten its move forward towards strengthening AEC.

The idea of an ASEAN Free Trade Area was considered not only feasible but also desirable (Pangestu, 1992) and no longer appears to be a remote possibility. At the Manila Summit the concept was still unacceptable, but discussions in anticipation of it have gone quite far in formalising the concept. The idea was not new. It was first aired in 1971 at the fourth AMM when discussions suggested that a limited free trade area or customs union might be the ultimate goal for ASEAN. In 1975 Singapore's Prime Minister, Lee Kuan Yew, proposed the creation of

an ASEAN free trade area. However, it was shelved for obvious reasons: other ASEAN members were simply not ready to take it up.

Renewed support for the free trade area concept began in 1991 when Thai Prime Minister Anand Panyarachun revived the idea and received endorsement from Prime Minister Goh Chok Tong of Singapore. In October 1991, the ASEAN Economic Minister Meeting (AEMM) recommended the establishment of an ASEAN Free Trade Area (AFTA) after receiving a clear signal from Indonesia that it was ready to take part in it.

In January 1992 at the fourth ASEAN Summit in Singapore, ASEAN heads of government signed the Singapore Declaration and the Framework Agreement on Enhancing ASEAN Economic Cooperation which provided the basis for the establishment of AFTA. This was indeed a major political decision because AFTA represents a market departure from earlier AEC.

The AFTA agreement is to phase down intra-regional tariffs to 0-5 per cent over a period of 15 years from 1 January 1993 and to eliminate non-tariff barriers for a wide range of manufactured products. The mechanism to achieve a free trade area is the Common Effective Preferential Tariff (CEPT) scheme. Under this scheme, member countries would set out comprehensive timetables for the phased reduction of intra-ASEAN tariffs on nominated goods. The main difference between PTA and CEPT is that PTA is granted only by the nominating country and there is no reciprocity, whereas under CEPT there is reciprocity in that once the good is accepted to be under CEPT all countries must give the preferential tariff. Unprocessed agricultural products and ser-

VICES are explicitly excluded from AFTA, but some ASEAN members have voluntarily included some unprocessed agricultural goods in their tariff reduction lists.

In implementing the CEPT goods can be placed on the "fast track" or "normal track" timetables. A total of 15 product groups have been earmarked for fast track reductions. These include: vegetable oils, cement, chemicals, pharmaceuticals, fertiliser, plastics, rubber products, leather products, pulp, textiles, ceramics and glass products, copper cathodes, electronics, gems and jewelry, wooden and rattan furniture. In the 1990 trade statistics the total intra-ASEAN trade covered by the above CEPT items amounted to US\$9.3 billion, or about 37 per cent of total intra-ASEAN imports.

Under the fast track program, tariffs above 20 per cent will be cut to 0-5 per cent within 10 years and tariffs of 20 per cent or less will be cut within seven years. Under the normal track, tariffs above 20 per cent will be cut in two stages: first to 20 per cent within five to eight years, and second, to 0-5 per cent in seven years. Tariffs of 20 per cent or less will be reduced to 0-5 per cent within 10 years.

The CEPT scheme makes allowance for the exclusion of sensitive products. Apart from restrictions that are necessary for the protection of national security, health and cultural traditions, all exclusions are to be temporary in nature and are subject to review after eight years. Allowance is also made for member countries to provisionally suspend CEPT preferences in cases when an import surge causes damage to a domestic industry. The CEPT scheme also includes an ASEAN content requirement of 40 per cent.

AFTA was not launched on 1 January

1993 as originally agreed upon, largely perhaps because ASEAN members were not ready administratively. It was "relaunched" on 1 January 1994. However, ASEAN governments soon realised that the AFTA program appears to have been overtaken by events, particularly by ASEAN members' own commitments to reducing trade barriers under the Uruguay Round Agreement. At the AEMM in September 1994 in Chiang Mai (Thailand), an agreement was reached to accelerate AFTA's implementation from 15 years to 10 years. The accelerated implementation will now reduce tariffs above 20 per cent to 0-5 per cent within five years in the fast track and seven years in the normal track, and tariffs of 20 per cent or less within three years in the fast track and five years in the normal track. In addition, AFTA is expanded to cover unprocessed agricultural products and all products in the temporary exclusion list will have to be taken out within five years by annually removing 20 per cent of the items from the list.

What will be the effects of AFTA's accelerated implementation? Toh Mun Heng and Linda Low (1993) reviewed 10 studies on the impacts of AFTA and found that the impact is not significant. The gain from trade liberalisation under AFTA was estimated to be between US\$3 to 4 billion in terms of the absolute amount of exports generated. Some studies showed that the gains from AFTA will not be distributed evenly: Malaysia would gain the most while the Philippines would gain the least. Will this create an obstacle for AFTA's implementation?

AFTA's acceleration may increase AFTA's credibility as it makes the program more relevant to investors. From the outset, AFTA is aimed at enhancing ASEAN's attractiveness as an investment location, a pro-

duction platform for the global markets (Hadi Soesastro, 1993). It is important, however, that ASEAN immediately moves to formulating and implementing a comprehensive AFTA Plus program, which goes beyond trade liberalisation measures.

The Future of ASEAN Economic Cooperation

In his study on AEC from a political economy perspective, Rolf Langhammer (1991) argued that the success of an AEC scheme depends on the type of "goods" that the activity supplied. He concluded that if ASEAN had acted as complement, rather than a substitute, to the private sector producing goods and to national authorities offering services of national scope only, AEC would have been more successful.

In his list of recommendations he proposed, among other things, that the focus of AEC should be on "cooperation" and not on integration. Within cooperation, ASEAN should concentrate on truly collective goods which cannot be produced by individual ASEAN states. Top priority should be given to macroeconomic stability and open market principle in all ASEAN member countries as a cooperation target. In addition, sub-regional cooperation has great potentials. However, he also argued that if integration is politically acceptable, priority should be given to measures towards more factor mobility that would help lower transactions costs. How should AFTA be seen in light of this suggestion?

The preceding review of the evolution of AEC clearly shows that AEC has moved into the direction of more outward-oriented

cooperation schemes. This is so, perhaps by necessity and also because of the structure of ASEAN economic relations. AFTA, therefore, is bound to be outward-oriented. Its discriminatory nature should be seen as temporary since AFTA acts primarily as a training ground for ASEAN's free and open trade and investment to the outside world. If AFTA fails to develop this outward orientation, ASEAN long journey to AFTA could mean a long journey to "another futile trade agreement".

Thus, AFTA is not meant to integrate the ASEAN economies with each other but to integrate them with the rest of the world. It follows from this suggestion that cooperation in trade, investment, and industry should not be focused on the region but must be globally oriented. Intra-ASEAN cooperation in trade and industry, as shown by the experiences of PTA and AIJV, cannot work. They also have become irrelevant with the formation of AFTA.

The Singapore Declaration stated, however, that albeit its importance, AFTA is but one part of ASEAN's comprehensive economic strategy. AEC schemes have also moved away from government-led schemes to private-sector oriented programs. Economic integration in the ASEAN region is largely market driven. Governments can and should facilitate this process. AFTA Plus should be designed with this objective in mind. AEC activities should no more be "Summit driven" but should help facilitate this market driven process.

The dichotomy between "resource pooling" and "market sharing" should no longer be made. AEC schemes in the future are likely to involve both. AFTA is both market sharing and resource pooling.

In the final analysis, AEC should contain a well-balanced package of activities. AFTA should not overshadow other AEC programs. This being the case, there is no reason why ASEAN should find it difficult to expand its membership to incorporate the rest of Southeast Asia. If the package is well-

balanced, the adoption of a "10 minus X" principle would not create major divisions within ASEAN. This should be ASEAN's overriding interest. Without a significant dose of internal solidarity, ASEAN is just an empty basket.

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ASEAN Free Trade Area (AFTA): An Indonesian Perspective*

Mari Pangestu

Introduction

INDONESIA has come a long way from being known as the main obstacle to the progress of intra-ASEAN economic co-operation. As recent as 1987, at the third ASEAN Summit in Manila, the words "free trade" were still anathema to Indonesia. Much has changed in the interim and as Suhadi (1992) points out Indonesia has adopted an irreversible outward looking policy which is driven by deregulation of its trade and investment sectors as well as by other reforms. ASEAN and AFTA remain important for Indonesia with regard to foreign and economic policy. However, there is a realisation that the relevancy of AFTA must also be viewed in the wider context of other regional agreements and multilateral system of trade.

ASEAN and AFTA

The ASEAN (Association of Southeast Asian Nations) is made up of six countries: Indonesia, Brunei, Malaysia, Philippines, Singapore and Thailand. The countries are very diverse as can be seen from Table 1. There is Indonesia the largest country with a population of 184.3 million and Singapore the city state with a population of 2.8 million. The total size of the population of ASEAN comes up to 330 million. This represents a potential market, especially given the rising purchasing power in the region due to robust economic growth and per capita income growth. GDP growth has been robust and relatively stable with low inflation rates in the last decade or so except for the Philippines. However, the prospects for the next two years look bright with recovery being predicted in the Philippines. All the ASEAN nations have undertaken economic reforms and adjustments in response to adverse external conditions and in some cases domestic recession.

*Paper presented on the occasion of the anniversary of "Ciputra Group", Jakarta, 12 December 1994.

A few facts about ASEAN before we talk about AFTA is necessary. First the percentage of intra-ASEAN trade is small at less than 20 per cent (Table 2 and 3) with half of that being accounted by Singapore re-exports. ASEAN countries trade more with non-ASEAN partners than with each other. Furthermore, the share of intra-ASEAN trade out of each country's trade had not increased, but in fact decreased. The share to East Asia is high due to Japan and especially due to oil exports from Indonesia to Japan. The other main trading partners are North America and EC. Thus, the underlying motivation of economic cooperation at this stage is not for the ASEAN market as in the case of European cooperation and integration, but more to increase ASEAN's competitiveness as a production location so that it can compete in the world market.

After languishing for a long time, intra-ASEAN economic cooperation received a major boost in January 1992 with the acceptance of the AFTA scheme. The modality chosen was the CEPT (Common Effective Preferential Tariff) scheme which is a cooperative arrangement among the ASEAN member states to reduce regional tariffs and remove non-tariff barriers over a 15-year period starting in 1993. All manufactured products and processed agricultural goods are included in the scheme. Member states are allowed to have general exceptions (based on security, health and so on) and temporary exclusions.

Fifteen commodity groups were also chosen to be on the fast track, that is for fast track products with tariffs greater than 20 per cent, immediate reduction to 20 per cent, and to zero to five per cent within ten years was required. For fast track products with tariffs at 20 per cent or below, tariffs will be

reduced to zero to five per cent within seven years. For other manufactured goods with tariffs greater than 20 per cent, the schedule of reduction is to be announced at the start date. The time table agreed upon in 1992 is provided in Table 4 and a list of the fast track products are provided in Table 5. To qualify for CEPT, the goods must satisfy local content requirement of 40 per cent, referring both to single country and cumulative ASEAN content.

In 1993, each country produced their lists and also negotiated on different starting dates (Table 6). Things have changed slightly since then. All the ASEAN member countries agreed to implement the CEPT program of tariff reductions as of January 1, 1994 which was earlier than expected since originally member countries had the flexible option of up to three years to start. Furthermore, there are more items on the total inclusion list, fast track, and the additional positive factor that ASEAN member countries unilaterally agreed to offer a large number of agricultural products to be included in the CEPT scheme.

If one studies the CEPT offered by Indonesia, several things can be noted on the basis of the aggregate tariff lines based on HS classification (Table 7). *First*, is that the number of times offered, 7,355 items, to be included is second highest after Malaysia and much higher than the Philippines. The inclusion list amounts to 78 per cent of total tariff lines (9,383). Furthermore, out of the 7,355 items on the inclusion list, 2,816 or 38 per cent are on the fast track. This is a higher percentage than other ASEAN economies except Malaysia. Indonesia has lowered tariffs on 1,941 tariff items under the CEPT scheme on January 1, 1994: 194 for all ASEAN countries, 1,057 for some ASEAN

countries and for all goods, and 690 for selected ASEAN countries and selected goods (Minister of Finance Decree no. 979, December 1993).

Second, while Indonesia has the highest number on its exclusion list, at 2,028 items, if one looks at the breakdown between temporary and general exception (or permanent) exclusions, then at least the number of permanent exclusions are lower than other countries. Most of the exclusions are "temporary". *Third*, Indonesia is offering the largest number of items on the fast track to begin with (i.e. in 1994).

The exclusion lists are allowed, as long as they are temporary and that permanent exclusions under the sensitive or security justifications, only amount to a small number of items and that the total import value has to be less than the exclusion list under the ASEAN-PTA scheme. Exclusion list will be reviewed in eight years and then determined whether it becomes permanently excluded or push in the CEPT scheme. Once the goods are put back into the CEPT scheme it automatically goes under the phase down of its commodity group.

It is of course difficult to evaluate the significance of these offers without being able to get an idea of how significant the items included in the fast track, normal track and exclusion list, are in trade and production. A detailed study is needed to uncover some meaningful trends from the individual country offers.

Some rough indication of the significance of Indonesia's commitment under AFTA is that out of the 15 sectors included in the fast track, five commodities are already below 20 per cent: fertilisers and copper cathodes have a zero per cent tariff; leather products has a

three per cent tariff, chemical products have a four per cent tariff, and pharmaceutical products have a five per cent tariff. However, there are various non-tariff barriers affecting the imports of these goods so that the low tariffs can be misleading. As for copper cathode, Indonesia is planning to build copper cathode factory in Gresik. Textile products, rubber products and pulp only have an unweighted average tariff of nine per cent and according to CEPT schedule the tariffs will be lowered to five per cent in 1995 and then zero to five per cent in 2000.

Some sectors that will be affected are those that are currently still receiving protection above 20 per cent and are on the fast track. If the scheduling for tariff reduction under the fast track AFTA option, then for items with tariffs above 20 per cent, tariffs have to be reduced to zero to five per cent within the next ten years and no new non-tariff barriers can be introduced and must be eliminated. The most likely sectors that will be affected are those that have not started exporting and rely on the domestic market.

It is of some interest to observe that press reports of AFTA that relate to the business sector indicate strong support from the textiles and garment, several plastic raw materials (PVC compound), wood products, and fertilisers. Demand for including goods in AFTA have come from other industries such as snack food made from wheat and rice flour association and enamel ware or covering for metal household and kitchen equipment. There have also been the usual negative responses from the business sector and private sector in general about the anti-climax following the Singapore Summit due to the delay in the start of AFTA, the lack of information available as to which products are included or excluded, and that the transi-

tion period is too long.

As for industries that have indicated that they would not be ready for AFTA, it is the consumer electronics industry. The justification given that the production volume is still small; overt dependence on the principal and that by and large it is still import substitution in orientation. Indonesia's electronic exports are only \$1 billion in 1993 compared with much higher numbers in Malaysia and Thailand. At a parliamentary hearing and based on Thee and Pangestu (1993) it is known that the electronics industry is recommending that the tariff reduction (from 40 per cent) should be undertaken in five to seven years time. However, there is not a problem in including electronic components which already have a tariff of zero to five per cent. Indonesian businesses see Malaysia and Thailand as its main competitors in AFTA, especially in electronics.

Table 8-10 provide some information on the fast track sectors under CEPT and the predicted comparative advantages of the ASEAN countries which would indicate complementarities. A closer study of the items in the inclusion and exclusion list is needed to check whether these industry concerns are being met.

In September 1994 some significant developments have occurred. At the ASEAN Economic Ministers Meeting in Chiang Mai it was agreed that the time table would be accelerated to 10 years from start date, the product coverage was widened to include unprocessed agriculture products, and some disciplines imposed on the use of exclusion lists. The external pressures from the Uruguay Round as well as APEC seems to have given another boost to AFTA.

Progress in Trade Liberalisation in Indonesia

To understand the significance as well as relevance of Indonesia's commitments to liberalise intra-ASEAN trade under AFTA, we need to understand the liberalisation that has already occurred in Indonesia and its commitments under Uruguay Round.

Unilateral Liberalisation

Indonesia first rationalised its tariffs in March 1985 by an across the board reduction in the range and level of nominal tariffs. The range of tariffs was reduced from 0-225 per cent to 0-60 per cent and most tariff rates ranged from 5-35 per cent. The number of tariff levels was also reduced from twenty five to eleven. After that the rapid decline in oil prices in 1986 led to the strong commitment by the Indonesian government to undertake wide ranging trade, investment and financial sector reforms. Unilateral trade liberalisation has proceeded rapidly since then, with one to two trade deregulation packages every year.

The use of non-tariff barriers had accelerated in the 1983-1986 period as an initial response to the worsening of the balance of payments due to the weakening of oil prices in the early 1980s. Therefore, the conventional approach to trade liberalisation was adopted with non-tariff barriers being replaced with equivalent tariffs and then to gradually reduce tariffs. In May 1990 tariffs were also reduced to a new ceiling of 40 per cent. At the same time there was an increase in split tariffs and use of surcharges justified as an anti-dumping measure.

As a result the coverage of non-tariff barriers out of gross production declined from 41 per cent of total production in 1986 to 22 per cent in 1993 and in terms of import value from 42 per cent to 13 per cent (see Table 11). On an aggregate basis, the coverage of non-tariff barriers in agriculture and manufacturing have experienced similar declines, especially manufacturing. The coverage for manufacturing has fallen from 68 per cent to 31 per cent and from 54 per cent to 30 per cent for agriculture. The decline in coverage on non-tariff barriers based on import value is even more dramatic from 43 per cent to 13 per cent.

The resulting decline in tariffs can be seen in Figure 1. Unweighted tariffs have declined by almost half from 37 per cent pre 1985 to 20 per cent in 1993. There have been similar declines in the weighted tariffs. Of course there are some items that have high tariffs such as motor vehicles, motor cycles, and engineering products.

Table 12 provides more disaggregated data on coverage of non-tariff barriers. It is clear that there has been significant reduction in coverage of non-tariff barriers in the manufacturing sector, especially non-metallic products, basic metals (mainly steel), and engineering. Coverage of non-tariff barriers are still high in food crops and food, beverages and tobacco. There have been indications that non-tariff barriers in agriculture will be the next target in government deregulation.

For the time being it is predicted that Indonesia will continue its progress in replacing non-tariff barriers with tariffs and reducing tariffs as it has been doing since 1986. However, there are indications of a slow down in liberalisation on the trade front as

well as deregulation in general as one gets to the harder parts of the deregulation. For the most part trade liberalisation in the last two years have not been significant, except for the removal of some non-tariff barriers on steel products in the October 1993 package. Other than that, the automotive deregulation was disappointing. While imports of completely built up cars can be undertaken now (prior to July 1993 only imports of CKD allowed), the tariffs are very high at 200-300 per cent. The Minister of Industry at the time of the announcement of the automotive deregulation also announced that the tariffs would be reduced to 25 per cent over 15 years. However, the schedule of tariff reduction was not announced. The World Bank and other private economists have suggested pre-announcing reduction of protection; however, to date the government has resisted.

Thus, it is difficult to judge whether unilateral liberalisation under national policy objectives will proceed faster or not than AFTA. However, logically some tariffs can come down easily for some of the sectors that Indonesia is competitive. Furthermore, there are indications that the non-tariff barriers in agriculture will also be next in the target for deregulation.

ASEAN, GATT and Uruguay Round Commitments

The ASEAN countries have not been major players in the GATT. Indonesia and Malaysia became members in 1950 and 1957 respectively, and "succeeded" into the GATT as newly independent countries. Singapore became a GATT contracting party on its own right in 1973. The Philippines became a

GATT contracting party in 1979 following the Tokyo Round and Thailand in 1982. Brunei Darussalam is still not a member of GATT. ASEAN members as a whole chose not to sign the codes on non-tariff measures resulting from the Tokyo Round. Singapore signed four of the six codes, the Philippines three and Indonesia one. Neither Malaysia nor Thailand became signatories of any of the codes (Stephenson, 1993).

As with other developing countries, the Uruguay Round is the first round that ASEAN countries participated more actively. There has been some coordination in their participation and joint paper through the regular meetings of the ASEAN Geneva Committee. Market access offers were relatively significant with Singapore and Indonesia offering tariff binding and the others tariff reductions. All ASEAN countries pushed for the elimination of the MFA and the ASEAN-four countries also pushed hard for agricultural liberalisation. The ASEAN countries have been active in the Textiles Surveillance Body (set up to oversee MFA) as well as International Textiles and Clothing Bureau (association for developing country exporters of textiles and clothing). More recently, ASEAN has made a suggestion that to speed up the process the trade negotiations under the WTO in future be conducted on a sectoral basis rather than on a "whole package" basis as was done under the Uruguay Round (Senior Economic Officials Meeting, Kuala Lumpur, 21-23 April, 1994).

Indonesia's market access offer in goods is as follows.¹ Indonesia chose the option of

¹The analysis of the offer as obtained from the Ministry of Trade and Ministry of Industry is based on February 1994 information; however, there are only slight variations with the final offer.

across the board binding rather than to reduce tariffs. Indonesia offered to bind its tariff across the board at a rate of 40 per cent. The number of items proposed for binding amount to 8,877 tariff items or 94.6 per cent of total tariff lines (this accounts for 91.6 per cent of imports). This number includes 885 items that had previously been bound under Schedule XXI. Of the items offered for binding, 85 per cent are industrial items and the remainder being agriculture. In agriculture, out of the 1,341 items offered to be bound, 1,038 items are bound at 40 per cent or less and the remaining 303 items are bound at rates higher than 40 per cent as set out in the Uruguay Round Agreement on Agriculture. Items which have been proposed for tariffication and binding in the agricultural area have also been proposed for a minimum of 10 per cent tariff reduction on a line-by-line basis, with an overall calculated reduction of 24 per cent as required by Uruguay Round.

The Indonesian government has also submitted a notification on the status and activities of BULOG (the State Logistics Agency through which many of the non-tariff barriers on agriculture are administered) as a State Trading Enterprise for certain agricultural products. In the area of rice imports, Indonesia has also been able to use its Special and Differential Treatment as a developing country to replace the three per cent minimum market access requirement with a lump sum imports of 70,000 tons of rice.

Indonesia has proposed an exclusion list of 504 items (5.4 per cent of total tariff lines and 8.4 per cent of total value of imports) which are not bound. The products covered by these exceptions include mainly: certain chemical products; certain plastic items; explosives; foreign printed material; some rub-

ber products; some agricultural tools; various types of machinery; some iron and steel products; some electronic items; automobiles and parts; aircraft; and firearms. Some of these items may be justified under Articles XX and XXI of the GATT justified on public morals and essential security interests.

Other than exclusions based on security and moral reasons such as explosives and drugs, a number of selected sectors in manufacturing which have received high tariff protection and enjoy non-tariff barriers are included in the exclusion list such as automotive, aircraft and some chemical industries. The exclusion of these items are justified based on the level of economic development of Indonesia as is allowed under paragraph 2 of GATT Article XVIII which allows "sufficient flexibility in ... tariff structure to be able to grant the tariff protection required for the establishment of a particular industry". It is also justified based on Article XVIII, paragraph 4(1) which allows "temporary" deviation from other Articles of the Agreement if the economy of the member in question is characterised by "low standards of living and is in the early stages of development". The intention of the government is to lower protection as the level of development increases. Most of the items excluded are steel and motor vehicles.

Indonesia's offer has been viewed by many, including the US as not a significant concession, given that the average (unweighted) tariffs are around 20 per cent. The offer essentially means that few changes in tariff protection will be required. Other developing countries are binding at 25-35 per cent for around 89 per cent of their commodities (World Bank, 1994).

However, there are positive aspects. Indonesia has offered to remove non-tariff barriers on items included in the across the board binding offer over a 10 year period. The Uruguay Round did not oblige developing countries to make a commitment on non-tariff barriers beyond agriculture. Of the 269 tariff lines with non-tariff barriers, 179 are included in the present offer for binding and will thus be eliminated over the 10 year period. Out of the 179 items, there are 81 agricultural items and 98 non-agricultural or industrial items. Examples of non-tariff barriers under agriculture that will be phased out over ten years is the local content requirements for dairy products and soybean cake (*tofu*). The local content requirement tied the import of milk and soybeans to the purchase of locally produced fresh milk and soybeans.

Indonesia also committed to the total elimination of tariff surcharges over the ten year phase out period which as discussed above had been used to increase protection under the guise of offsetting dumping. Any new introduction of surcharges will be subject to a timetable for their elimination and follows GATT procedures regarding notification and transparency.

Indonesia has chosen broad binding at a high tariff rate and committing to removal of non-tariff barriers over ten years in the broad group (around half of all non-tariff barriers) over selective binding at a lower tariff rate and commitments to reduce tariffs over a scheduled period. While the weakness of binding at the maximum rate of 40 per cent was thought to be an insignificant commitment given that average tariffs are already 20 per cent and that the peak tariff rate set nationally was already 40 per cent for most items, the broad binding is still

significant in that it will prevent additions to new sectors, justified by various reasons such as infant industry, strategic industry and industrial policy, that will be protected by non-tariff barriers and/or high tariffs. Most of the items on the exclusion list which have important non-tariff barriers are steel and motor vehicles.

Indonesia has also excluded from its offer a number of import regulations (e.g. imports requiring prior approval of government agencies and imports of used capital equipment). But some of these rules may need to be changed in order to comply with the new GATT rules on standards and sanitary regulations.

Given that it is not clear what the schedule for tariff reduction or non-tariff barrier elimination or reduction will be under the unilateral trade liberalisation policy or under Uruguay Commitments, in the case of Indonesia realisation of the AFTA timetable will mean a reduction in protection earlier for competition with other ASEAN countries. Indonesia's commitments under AFTA will thus be an important barometer as to which sectors the government is willing to "let go". This is not necessarily the best way to proceed, but this is how the inclusion and exclusion lists are drawn up.

Issues in Implementation of AFTA

Much has been written and analysed about AFTA since the Singapore Summit and it is quite telling of the progress that most of the analyses conclude that while the idea of AFTA is fine and well given the non-economic considerations and the increasingly competitive external environment -- there

are nevertheless the inherent weaknesses that may render AFTA to live up to its complimentary acronyms of Agree First and Talk After (coined by Narongchai Akrasanee) or Another Futile Trade Area (coined by Mohamad Arief).

The various weaknesses are first that fifteen year transition period is too long. As is well-known prior to the decision made at the summit, some countries such as Singapore and Thailand (at the time) pushed for 10 years. Indonesia was one of the countries which wanted a longer transition period. In the end the 15 years appeared to be the accepted compromise. However, this has recently been addressed, indicating that deadlines per se may not be as important as the underlying political will as deadlines can change due to changing conditions and pressures from the private sector.

Another weakness of AFTA that is frequently mentioned is that AFTA only addresses tariffs while non-tariff barriers are the important obstacles to trade. In principle products offered to be included under CEPT will be subject to standstill and roll back. In the case of non-tariff barriers, especially with a fifteen year transition period, it is quite likely that AFTA will be overtaken by unilateral liberalisation and Uruguay Round Commitments.

Third, economic analysts and business people have often suggested the need for an information centre about the implementation of AFTA and that private sector should participate more in the determination of various aspects of AFTA. The ASEAN secretariat or national government bodies that are made up of some combination of the chamber of commerce, business associations and relevant government ministries (Trade

as well as Industry) could also supplement the role of the ASEAN Secretariat.

Nothing related here is new. It has been with us ever since discussions of intra-ASEAN economic cooperation began. We should definitely prioritise the issues that need to be tackled, but it is important to have a vision of where we are going and why we need to go there.

Are the private sector and businesses forging ahead with intra-ASEAN economic and business ventures regardless of AFTA and as a phenomenon of internationalisation of business? Then do we need AFTA?

Businesses are going ahead with ASEAN cooperation formally as well as informally. As a point of information, one formal channel is the ASEAN Institute or now called the ASEAN Business Forum which was created three years ago amongst big businesses in ASEAN and has 167 members. Various joint business ventures have occurred valued at \$300 million between major ASEAN companies such as Bakrie and Brothers; MBf Finance Bhd.; Shinawatra Group; Singapore Technologies Industrial Corporation; Siam Motors Company Ltd.; Siam Steel Pipes; The Hour Glass Ltd.; AMA Group of Companies; Diversified Resources Bhd.; Sikap Management Sdn. Bhd.; PT Bukaka Teknik Utama; Nusa Bank and Matahari Group. The Forum has also conducted several seminars (*Suara Karya*, 26 March, 1994). Furthermore, recently an ASEAN fund worth US\$40 million in April will specialise in Southeast Asia's booming economies. The fund will invest in equity markets, initial public offerings and unlisted firms in the region's booming economies, received commitments from its 250 member companies to subscribe to about 60 per cent of the fund.

The setting up of an ASEAN commercial bank has also been suggested (*Jakarta Post*, 26 March, 1994).

Capital market regulators agreed in early April to set up a forum to evolve common procedures for tapping overseas funds and beef up enforcement of laws governing their new emerging markets. The focus of cooperation will be on improving stock clearing and settlement systems, harmonising capital requirements and cross border enforcement of laws in ASEAN (*Jakarta Post*, 6 April 1994). Market capitalisation of the stock exchanges in ASEAN has increased from US\$174 billion at the end of 1991 to \$534.8 billion at the end of last year representing more than a three fold increase in two years. Therefore it is recognised that the market is not disrupted and that investor interests are protected.

An interesting phenomenon is regardless of AFTA, there are increasing joint business ventures between ASEAN businesses. Some examples of Indonesian companies which have joined forces with other ASEAN businesses are motivated by synergy, market penetration, upstream integration, they are as follows:

1. Prayogo Pangestu of *Barito Pacific*, a giant timber company and the largest producer of plywood in the world (accounts for 20 per cent of world supply) will emerge as the major shareholder of Construction and Supplies House Bhd. (CASH), a Malaysian listed firm. CASH is acquiring three of Prayogo Pangestu's companies: Rindaya Wood Processing Sdn. Bhd. in East Sarawak, Lombda Pty. Ltd. in Papua New Guinea and Nantong Plywood Industry Co. Ltd. a Chinese joint venture co. The sale amounts to

US\$360 million and the Malaysian firm will pay for the purchase through a ringgit issue of new shares. This will make Prayogo Pangestu a major shareholder of CASH (*Jakarta Post*, 4 February 1994).

2. Liem Sioe Liong, Indonesia and Robert Kuok of Malaysia plan to merge their sugar interests in Malaysia and Indonesia under a new holding company and spend more than US\$1 billion on seven projects in South Sumatra which will cover a total area more than twice the size of Singapore. The projects will include plantations and a factory capable of crushing 10,000 tons of cane a day and producing about 120,000 tons of sugar a day. Two of the projects are already completed and another five will be built over the next 10 years (*Jakarta Post*, 13 April 1994).
3. *Aqua Group*, producing mineral water in Indonesia, will set up factories in the Philippines and Vietnam. The joint venture partner in the Philippines is Filipino Water Bottling Company.
4. *P. T. Branta Mulia* will invest in Malaysia to build a new factory in fiber raw materials made up of nylon and polyester to make tyres. This is their third factory after Indonesia and Thailand (*Prospek*, 3 April 1993) and the motivation seems to be upstream integration.

Indonesia and ASEAN in the Wider External Environment

What does ASEAN mean to Indonesia economically and politically? Trade and investment relations are increasingly becoming important. On the trade side ASEAN accounts for 17.8 per cent of Indonesia's non-oil exports in 1992 and 12.8 per cent of In-

donesia's non-oil exports in 1993. Growth of non-oil exports to ASEAN increased by 22.4 per cent which is higher than the average growth.

Indonesia's official approach to external economic cooperation can be likened to concentric circles. The smallest circle is the growth triangle cooperation which can involve subsets of the ASEAN countries. The next circle is ASEAN and this remains important for Indonesia in general. Bigger circles of course are APEC and GATT. These different levels of economic cooperation are seen as mutually reinforcing and not competing or alternatives. For instance, Suhadi (1992) stresses that Indonesia's priority is an open multilateral trading system, but ASEAN can be seen as a training ground. The idea is to have intra-ASEAN competition first before competing internationally.

While this concept may be theoretically easy to explain, in practice many of the cooperations are necessary for non-economic reasons and in implementing each of these forms of economic cooperation, the consistency may not flow as easily. The above discussion on the progress of Indonesia's trade liberalisation at the unilateral, AFTA and GATT levels indicate this to be the case. In the case of Indonesia one can postulate that it is due to lack of coordination and vision as to the path trade and other liberalisation should take in the medium and long-term which is in line with some general economic development vision. By and large the trade liberalisation is rather ad hoc at present.

In any case the different layers of cooperation within which AFTA lies need still to be discussed in the light of evaluating the re-

levance of AFTA in leading each ASEAN country to develop a stronger industrial base which will help us compete with others outside of ASEAN.

Among the issues that need to be analysed and monitored carefully is first the relationship between growth triangles and AFTA. Growth triangles will involve free movement of goods, capital and easier movement of people between contingent areas. However, since AFTA also includes market and not just for production base, it would appear that while there is diversion of attention, AFTA and growth triangles are mutually consistent. If growth triangles can develop based on economic complementarities and private sector initiative, the government ought to facilitate it.

There is also the newly emerging issue of expanding AFTA to include non-ASEAN Southeast Asian states, especially Vietnam since it is the one that has gone furthest in market liberalisation. Here the issue is not just of matching economic development and policies, but also a political one of timing. Other ways AFTA is being expanded is to consider new affiliations with other trade areas such as the Australia and New Zealand CER and even NAFTA (as suggested under President Bush). As is known in April Prime Minister Keating proposed a free trade link with ASEAN countries and this was also supported by Thailand. Once again careful considerations are needed to proceed with this idea and to carefully weigh the benefits and costs.

How about the consistency of AFTA in the wider context of APEC and GATT. Here are some considerations. There are some who are pessimistic about AFTA. Stephenson (1994) points out that "With a successful

trade agreement under GATT, and with the prospect of follow-on GATT negotiations in the late 1990s, the two forms of regionalism -- the close regionalism represented by AFTA and the more open regionalism represented by APEC -- will become less attractive for ASEAN members. However, both will continue to be pursued, more for foreign policy and strategic reasons than for economic reasons". Here closed regionalism is taken to mean reductions in trade barriers that are given to the members of the regional agreement and not on an MFN basis. Whereas open regionalism, at least by one interpretation is a case whereby reductions in the trade barriers are decided at the regional level, but given at an MFN basis (Bergsten). She concludes that ASEAN should first and foremost be focusing on the effective participation in the GATT and implementation of the Uruguay Round, rather than on narrow AFTA. In a recent paper, Garnaut (1994) also suggests that the progress in APEC may be better achieved by concerted consultations at the regional level, but liberalisation should still be on a unilateral and MFN basis. The other extreme would be to have a Pacific wide free trade area which at present has limited acceptability in the ASEAN circles.

Conclusions:

Looking Ahead at AFTA Plus

The objective of AFTA is to increase ASEAN's competitive edge as a production base geared for the world market (*AFTA Reader*, 1993, 1). As is by now well-known the main argument is that liberalisation of trade between the ASEAN countries will increase efficiency and complementarity be-

tween the ASEAN countries which will strengthen its position *vis-à-vis* international competition. Thus, to be a viable argument, AFTA has to add to the competitiveness of each of the ASEAN countries beyond unilateral liberalisation which will occur under the Uruguay Round and each nation's individual program.

Many other studies have identified future areas that AFTA needs to go to beyond the CEPT scheme if it is to succeed. Basically one has to think about all the aspects beyond tariff and non-tariff barriers which impede trade. Some of the identified future direction are:

- harmonisation of standards;
- reciprocal recognition of tests and certification;
- harmonisation of customs procedures;
- removal of barriers to foreign investment;
- macroeconomics consultation;
- rules of fair competition;
- promotion of venture capital;
- extending liberalisation to services.

Basically the argument is that AFTA as it stands is already out of date and does not reflect what future regional trade agreements look like.

Thus, in conclusion if AFTA is to remain relevant in economic terms and not just there for the sake of the "glue that keeps ASEAN

together", then it must move forward and respond quickly and in a pragmatic way to the changing world. This will mean many things that were discussed above such as speeding up the transition period, implementing as quickly as possible the present agreement on tariff reductions and removal of non-tariff barriers, and to move ahead to the new issues that would make AFTA an attractive pull for the private sector. Only in this way -- an AFTA plus -- will there be an added advantage to the ASEAN countries that will confer added advantage and competitiveness to each of the ASEAN countries compared with undertaking unilateral liberalisation.

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Table 1

ASEAN'S FIVE COUNTRIES BASIC ECONOMIC INDICATORS

	Indonesia	Malaysia	Philippines	Singapore	Thailand
Population (mill) (mid 1992)	184.3	18.6	64.3	2.8	58
% Urban	32	45	44	100	23
Labour Force (mill) (1992)	75	7	24	1	31
GNP/Capita 1992	670	2,790	770	15,730	1,840
PPP Adjusted 1992	2,970	8,050	2,480	16,720	5,890
	4.0	6.1	-1.0	5.9	6.0
GDP Growth					
1980-1992	5.7	5.9	1.2	6.7	8.2
1993	6.7	8.5	1.7	9.9	7.9
1994e	6.9	8.6	4.2	8.8	8.3
1995e	7.1	8.3	5.5	8.0	8.3
Inflation					
1980-1992	8.4	2.0	14.1	2.0	4.2
1993	10.6	3.6	7.6	2.4	3.3
1994e	8.4	3.8	9.5	4.0	4.5
1995e	7.9	4.0	6.5	3.7	4.3

Source: World Bank, *World Development Report*, 1994.

Table 2

ASEAN TRADE 1985, 1990
(Percentage Share)

	1985	1990	Growth (% p.a.)
Intra-ASEAN	19.7	17.7	14.8
East Asia	33.8	34.4	17.7
NAFTA	18.7	18.2	16.7
EC	11.5	14.8	23.4
Rest of World	16.2	15.0	15.5
Total	100.0	100.0	17.3
US\$ Billions	135.5	301.6	

Source: IMF, *Direction of Trade Statistics* and Republic of China, Taiwan, *Trade Statistics*.

Table 3

ASEAN TRADE SHARES (%) 1985, 1990

		Brunei	Indonesia	Malaysia	Philippines	Singapore	Thailand
ASEAN	1985	22.8	10.2	24.3	13.1	24.8	16.6
	1990	28.4	9.1	24	8.7	22.1	12
East Asia	1985	58.1	46.7	33.6	28.6	26.8	30.6
	1990	39.7	48.9	31.7	32.9	28.6	36.6
NAFTA	1985	8.8	20.8	14.8	31.3	18.5	16.4
	1990	6.1	13.7	17.9	28.3	19.3	17
EC	1985	3.1	8	14.4	11.1	11	16.6
	1990	20.3	15	14.8	13.8	13.6	17.2
ROW	1985	7.2	14.2	12.9	16	18.8	19.8
	1990	5.5	13.2	11.6	16.3	16.4	17.1
Total		100	100	100	100	100	100
US\$ Billion	1985	3.5	28.9	27.7	10	49	16.4
	1990	3.9	47.6	58.7	21.1	113.7	56.5

Source: IMF, *Direction of Statistics and Taiwan Trade Statistics*, 1991.

Table 4

TIMETABLE FOR AFTA

January 1992	A wide range of tariffs Indonesia 20.3% Malaysia 9.7% Thailand 36.3% Singapore 0.4% Philippines 22.9% (from GATT, July 1991, average tariffs, trade weighted)
January 1, 1993	Start of AFTA 1. For fast track products with tariffs greater than 20%; immediate cut to 20%. 2. For other manufactured goods with tariffs greater for reducing tariffs to than 20%; announce schedule 20% within 5-8 years.
January 1, 1998	Phase 2 for most manufactured goods 1. Tariffs are 20% or lower. 2. Announce schedule for lowering tariffs to 0-5% in 7 years.
January 1, 2001	Phase 2 for slower manufactured goods 1. Tariffs are 20% or lower. 2. Announce schedule for lowering tariffs to 0-5% in 7 years.
January 1, 2005	Almost AFTA Tariffs for most manufactured products cut to 0-5%
January 1, 2008	Tariffs for all manufactured goods cut to 0-5%

Table 5 A

FAST TRACK SECTORS

Cement
Fertilizer
Pulp
Textiles
Jewellery and precious stones
Furniture from wood and rattan
Leather goods
Plastics
Pharmaceuticals
Electronics
Chemicals
Rubber products
Vegetable oils
Ceramic and glass
Copper cathode

Note: September 1994: Update - Acceleration timetable to 2003
- Inclusion of unprocessed agriculture

Table 5 B

CEPT EXPORTS - INTRA ASEAN (1990)
US\$ Millions

	Brunei	Indonesia	Malaysia	Philippines	Singapore	Thailand	Total
Pulp	0.0	12.3	2.7	0.0	8.2	0.9	24.1
Textiles	0.0	396.4	2,008.4	4.6	95.2	59.4	2,564.0
Vegetable Oils	0.0	17.7	359.9	7.4	30.9	1.7	417.5
Chemical	0.1	31.1	61.7	37.2	197.8	27.3	355.2
Pharmaceuticals	0.0	4.2	20.5	4.6	20.5	8.6	58.3
Fertilizers	0.0	94.2	38.4	49.7	9.8	2.7	194.9
Plastics	0.0	37.1	43.5	2.5	349.6	25.3	458.0
Leather	0.2	2.1	3.1	0.2	2.8	7.4	15.7
Rubber	0.1	11.5	34.1	2.2	20.8	25.6	94.3
Cement	0.0	35.6	41.6	0.0	12.8	0.7	90.7
Glass	0.0	20.5	44.4	5.0	19.2	13.3	102.4
Gems	0.0	15.5	0.2	0.4	9.2	10.9	36.2
Electronics	0.5	39.0	2,872.0	149.8	878.9	874.1	4,914.3
Furniture	0.1	11.1	53.1	0.9	1.5	7.8	74.5
Average	1.1	728.4	5,583.5	264.6	1,657.0	1,065.6	9,300.2

Source: ASEAN, *Trade Statistics 1990*.

Table 6

CEPT STARTING YEAR AND NUMBER OF ITEMS
(Included and Excluded)

	Singapore	Indonesia	Thailand	Philippines	Malaysia	Brunei
Starting year						
Fast-track program	1993	1995	1995	1996	1993	1994
Normal-track program	1993	1996	1998	1996	1993	1994
Number of items included						
for reduction	5,714	7,453	4,700	4,112	10,146	6,183
Fast-track program	2,200	3,165	1,936	862	3,251	1,826
Number of items excluded						
from reduction	118	1,769	618	1,449	1,600	361
Temporarily excluded	0	1,708	118	1,199	648	166
Permanently excluded	118	61	500	250	952	195

Notes: Figures are based on decisions as of the end of December 1992 and are subject to change. Items are designated under HS 8-digit code in the Philippines, 6-digit code in Thailand and 9-digit code in other countries.

Source: *Pacific Business and Industries* 1, 1993; *New Straits Times*; *Bangkok Post* and others.

Table 7

SUMMARY OF CEPT LIST

Country	HS Digit Level	INCLUSION			EXCLUSION					
		Fast Track	Normal Track	Sub Total	%	Temporary	General Exception	Unprocessed Agricultural Products	Sub Total	Total
Brunei Darussalam	9	2,240	3,659	6,079	92.89	208	201	56	465	6,544
	6	1,975	2,604	4,579	-	-	-	-	-	-
Indonesia	9	2,816	4,539	7,355	78.39	1,654	50	324	2,028	9,383
	6	1,445	2,734	4,179	80.07	834	30	176	1,040	5,219
Malaysia	9	3,166	5,611	8,777	87.39	627	98*	541	1,266	10,043
	6	1,725	2,419	4,144	85.50	273	98*	332	703	4,847
Philippines	6	1,033	3,418	4,451	79.61	714	28	398	1,140	5,591
	6	974	3,079	4,053	-	-	-	-	-	-
Singapore	9	2,205	3,517	5,722	97.95	nil	120	nil	120	5,842
	6	1,896	3,078	4,974	100.00	nil	-	nil	-	4,974
Thailand	Tariff	3,509	5,254	8,763	94.00	118**	26*	415	559	9,322
	Line	1,738	2,777	4,513	91.56	-	26*	390	416	4,929

*products

**HS-10 digit level

Table 8

COMPARATIVE-ADVANTAGE INDUSTRIES IN ASEAN COUNTRIES (1990)

	Singapore		Indonesia		Thailand		Philippines		Malaysia	
	Items	RCA ^a Share	Items	RCA Share	Items	RCA Share	Items	RCA Share	Items	RCA Share
Extremely high comparative advantage	Office machinery	6.17 6.24	Wood products	40.65 12.99	Travel goods handbags, etc.	4.77 2.63	Clothing	6.11 1.65	Communications and sound recording apparatus	6.22 3.20
	Communications and sound recording apparatus	4.27 4.33	Footwear	6.51 2.08	Footwear	4.40 2.42	Wood products	4.20 1.13	Electrical machinery	4.46 2.30
			Clothing	4.64 1.48	Clothing	3.17 1.74	Electrical machinery	3.25 0.88	Wood products	3.77 1.94
			Furniture	3.41 1.09	Non-metallic mineral products	2.93 1.61	Furniture	3.17 0.86	Clothing	2.53 1.31
High comparative advantage			Textiles	2.51 0.80	Leather products	2.89 1.59	Travel goods, handbags, etc.	2.68 0.72		
	Electrical machinery	2.25 2.28	Leather products	2.19 0.70	Communications and sound recording apparatus	2.09 1.15	Communications and sound recording apparatus	1.48 0.40	Leather products	1.09 0.56
	Organic chemicals	1.05 1.07	Non-metallic mineral products	1.76 0.56	Furniture	2.05 1.13	Footwear	1.46 0.39	Other chemicals	1.03 0.53
					Wood products	1.87 1.03	Photo apparatus, optical goods, watches	1.28 0.35		
					Textiles	1.52 0.84				
					Office machinery	1.36 0.75				
					Electrical machinery	1.36 0.75				
					Photo apparatus, optical goods, watches	1.09 0.60				

Notes: Items with extremely high comparative advantage are assigned an RCA coefficient of 2.5 or more, and those with high comparative advantage an RCA coefficient of 1 or more and less than 2.5. The share indicates the percentage of each export item to the item's world export value.

Source: OECD, *Foreign Trade by Commodities*, 1990.

Table 9

PROJECTED CHANGES IN REGIONAL TRADE AFTER THE ESTABLISHMENT OF AFTA (Unit: %)

	Singapore	Indonesia	Thailand	Philippines	Malaysia
Regional export share					
Current	10.4	20.2	15.6	11.1	23.8
After the establishment of AFTA	14.6	22.3	19.6	14.5	25.8
Regional import share					
Current	14.6	6.4	4.4	3.3	12.2
After the establishment of AFTA	14.9	9.7	7.3	4.9	16.6

Source: *Straits Times*.

Table 10

PRIORITY INDUSTRIES IN ASEAN (in 1980s)

Singapore	Indonesia	Philippines	Malaysia
Industrial upgrading: promoted in early 1980s	10 major industrialisation projects: announced in 1979	11 major industrialization projects: announced in 1979	Heavy industry development policy: implemented in early 1980s
Intelligent services	Steel mills	Copper smelting	Automobiles
Chemical industry	Aluminum smelting	Phosphate fertilizer	Steel mills
Biotechnology	Engines	Diesel engines	Cement
Electronics	Agricultural machinery	Cement	Fertilizer
Precision instruments	Construction machinery and materials	Integrated steel mills	Motorcycle engines
	Machine tools	Petrochemicals	
	TV tubes	Machinery	
	Generators	Coco chemicals	
	Automotive parts	Aluminum smelting	
	Shipbuilding	Paper and pulp	
		Alco-gas	

Source: Economic development plans of each country and others.

Table 11

PERCENTAGE COVERAGE* OF NON-TARIFF BARRIERS AFTER REFORM PACKAGES IN EACH YEAR

	1986	1987	1988	1989	1990	1991	1992	1993
GROSS PRODUCTION	41	38	29	28	25	22	22	22
Manufacturing	68	58	45	38	33	32	31	31
Agriculture	54	53	41	40	38	30	30	30
IMPORT VALUE	43	25	21	17	15	13	13	13

* Percentage coverage based on 1985 production for 1986. Subsequent years based on 1987 production.

Source: World Bank.

ASEAN's Informal Networking

Jusuf Wanandi

Introduction

THE word "informal networking" has been used most probably because of the lack of a better word to express the importance of NGOs (*Non Government Organisations*), "second track" networking and people to people diplomacy within ASEAN.

It tries to capture the importance of activities other than those of government's in the development and vibrancy of ASEAN, internally as well as externally. Indeed it can be argued that in the first ten years of ASEAN's existence, until the Bali Summit of 1976, the governments and bureaucracies of ASEAN have been the ones that have driven the organisation through its infancy and achieved a basic structure of ASEAN. In the last ten years or so activities of NGOs, "second track",¹ networking and people to peo-

ple diplomacy have given a new impetus to ASEAN's existence and strengthen ASEAN as an organisation. It has also added another element to ASEAN, namely the transformation of ASEAN from a *gesellschaft* (or a modern social entity that has been founded on rational organisational requisites) into a *gemeinschaft* (an "organic" entity, that has elements of emotional and psychological ties between its members, that brings deeper, wider and stronger relations than in a *gesellschaft*).

In the future these participation of NGOs will become even important for ASEAN, due to developments, both in the economic realm, and in the political security field. This is caused by the fundamental change that has happened in the global system, both in the economic and in the political-security fields.

In the economic realm the globalisation of the economy and the ascendancy of the free market system have brought about more

¹"Second track" networking is basically a non-governmental academic activity, where government officials also participate in private capacity. This brings

official input but also flexible and free discussions in the networking.

intensive interactions among private sector people and entities and that nations, therefore, have become more interdependent. This means that more corporations are relating to each other and are located where the best economic advantages are, production and marketing wise. Technology and communications, including information-technology, have not only made this possible, but also made it imperative for companies to compete. Therefore, increasingly the actors in economic relations will be private ones (NGOs), market-oriented and less dependent on the government.

In the political-security field, nations are no longer the only subjects of international relations as has been recognised since the Treaty of Westphalia in 1648. Sovereignty of nations are being eroded from above through international and regional cooperation (the UN and EU or ASEAN), from below by groups in societies, especially minorities, with sometimes pressures for self-determination and autonomy (political, economic and cultural), and from the side due to the globalisation of the economy, information technology (such as CNN), and revolution of communication. Therefore, in the future groups in societies, including minorities, and even individuals (as in the case of human rights) are also striving for a role in and become subjects of international relations.

This will require greater adjustments in international law. One aspect of this new development is the right of intervention in other states' domestic affairs as in the case of human rights gross violations. This is also the case in civil wars or plain collapse of nations due to various reasons compounded by existing civil wars.

Bosnia, Somalia and Rwanda are recent examples. It is also possible that environmental, population, bad governance, and civil wars pressures could result in the collapse of a nation and could put a tremendous burden to the region and the international community. Here, the rules of intervention have not been laid down clearly, and too much politics are still the main constraint for humanitarian or peace-making efforts.

The other reason for the new intensity in ASEAN relations are in the changed regional environment. Economic integration and dynamics of the regional economies in the Asia Pacific have made it imperative for more intensive relations among ASEAN members, especially the private sector. This is vital to keep the dynamism of and to overcome the obstacles for continued vibrant growth in ASEAN and the Asia Pacific region.

In addition, there is the necessity to lay down a new strategic map for the Asia-Pacific region in the wake of the ending of the Cold War. This means, that new strategic thinking has to be developed to be able to cope with the future. Governments alone will not be capable of bringing this about, because the challenge is huge. A vision is needed, and it has to be worked out into a viable regional order and system. For that purpose ASEAN's potentials have to be mobilised and developed: intellectual and academic, political and statesmanship, as well as economic and entrepreneurship.

For all those reasons above, international as well as regional, economic or political-security, a total diplomacy is needed for ASEAN. The governments are to give the guidelines, but the academics, businessmen, youth, women, the media, and all the people

have to participate in implementing national and regional policies.

Here NGOs, "second-track" activities and people to people contacts and relations are of paramount importance in realising these new visions in ASEAN, and to make ASEAN the vehicle of and means for a stable, peaceful and prosperous Asia Pacific. ASEAN is an important contributor to peace, stability and prosperity in the world at large.

In the next sections ASEAN's informal networking will be discussed, beginning with the activities and mechanism within ASEAN, then for Southeast Asia, Asia Pacific and the International Community.

Informal Networking: Objectives and Methods

ASEAN

It is clear that ASEAN's future will depend among others and foremost on whether it is relevant to the people of each of the ASEAN countries in the future. Dramatic changes have taken place and are still happening in ASEAN proper and in its environment: the South East Asian sub-region, the Asia Pacific region, and the world at large. Therefore, ASEAN has to constantly adjust and each time and again find ways and means to deepen and widen the relationship between its members and between ASEAN and its strategic environment.

These new challenges are indeed basic and fundamental in nature and therefore all the ASEAN nations, and not only their governments, have to respond to them, including through the so-called informal net-

working, second-track cooperation. The main challenge for the ASEAN countries is how to cope with new developments and changes in their own societies that have resulted from the remarkable economic development they have achieved over the last 25 years or so.

How should the ASEAN members co-operate in the future among themselves especially in the informal networking in facing this most dramatic change in their societies? Particularly, what modalities should be developed if the principle of non-intervention in each other's domestic affairs is accepted as the rule in the relations among the ASEAN members, especially at the government level?

The trend in international relations, as has been explained in the introduction, is to accept not only states but also groups in societies and even individuals as subjects of international law. In addition, that the principle of intervention in other countries domestic affairs is no more a sacrilege. The change is due to economic reasons (globalisation of the economy and technological developments) as well as political ones (multilateral, regional cooperation and domestic developments).

The problem is that the rules of intervention are not clear and therefore unilateral interventions are made for high moralistic reasons as is the case in human rights, while in other real critical cases intervention is not made because the case is "unimportant". In a lot of instances the facade of the states being considered as the only subjects in international relations is still being maintained.

That is why the intention to intervene, the objectives and the ways and means of how to do it are very important. In the case

of ASEAN relations, it is clear that in the longer future economic integration, social interactions and political cooperation will increase the stake of each member country in the other member countries' developments. And therefore it cannot be expected that there will be completely hands-off policy towards other member countries' domestic developments.

In the meantime social interactions especially among ASEAN NGOs in the second-track diplomacy have already created a lot of relations and cooperation. They also are starting to have policies of solidarities towards each other's developments and on their relations with their own governments. This is true in the human rights field as well as in environmental activities. That is why intervention is not being applied only by Asia Watch or Amnesty International, but increasingly also by NGOs from other ASEAN countries due to the solidarity created among functional organisations in the field of human rights. This is one aspect of what has happened among others in the case of the conference on human rights in East Timor in Manila and Bangkok in the last few months.

The influence of one affair in a member country also has an effect on the other members' domestic developments, as happened in the case of the Al-Arqam movement in Malaysia with its impact on Indonesia, Brunei and Singapore. In conclusion it can be argued that in the future ASEAN has to consider how domestic developments in each member country will impact on the other members and what they can do about it together.

Obviously this should be based on friendship that has already been established, with

the intention of helping each other and to be implemented in accordance with the rules that will be formulated together by ASEAN, legally or according to unwritten rules, depending on the case. One good example is the proposal of ASEAN-ISIS to establish an ASEAN Human Rights Commission (AHRC) consisting of recognised and acceptable ombuds persons, who are trusted by both the governments and human rights NGOs. Its task is to have oversight on human rights developments in the ASEAN countries, to educate the public and to promote the implementation of the most basic rights (for example, the right to live, the rights against torture and slavery, implementations of the rule of law and good governance, and freedom of beliefs and religions) without any excuse or exception.

ASEAN leaders such as Anand Panyarachun, former PM from Thailand; Tommy Koh, Ambassador at large from Singapore; Prof. Mochtar Kusumaatmadja, former Foreign and Justice Minister from Indonesia; Corazon Aquino, former President of the Republic of the Philippines; and Teuku A. Rithaudeen, former Foreign and Defense Minister from Malaysia are well-qualified and acceptable to serve in such a Commission. The idea could be proposed by a NGO like ASEAN-ISIS and recognised by the ASEAN governments, as an ASEAN Commission. Similar initiatives can be developed through a lot of dialogues with the governments.

ASEAN should anticipate that such "principle of intervention" will have to be accepted. In the meantime, this has already created some tensions among ASEAN members. Discussing it thoroughly with the sensitivity that is needed, will enable ASEAN to lay down some rules of the

game. This is a much better proposition than not recognising that the lack of such rules can create discord among ASEAN members in the future.

Here NGOs can cooperate with the governments to formulate the necessary principles and rules of the game for "intervention" toward each other. The word "intervention" may be too strong; instead the issue can be addressed as that of how to minimise the negative impact of ASEAN's closer cooperation in the various fields on each other's domestic developments by agreeing to a set of code of conduct including among the NGOs.

In the economic field this is much easier, because it is recognised that economic cooperation has to be increased and upgraded so that NGOs, especially businessmen in ASEAN, could and should cooperate to reach the objectives of closer cooperation, for example, AFTA (ASEAN Free Trade Area).

Here, making business deals, establishing ASEAN Club for businessmen, media coverage, public relations and education among the private sector in ASEAN member countries are helpful to overcome vested interest among some sectors of the economy of each member country, and this should be done. But AFTA itself should be pursued also by academic institutions in ASEAN, such as ASEAN-ISIS and ISEAS, because of the need to give it a push through studies and deliberations that full appreciate any ASEAN interest and to overcome the reluctance or resistance from vested interests among some business sectors in each of the ASEAN country.

In relation to strengthening ASEAN's cooperation, what mostly should and could

be done by NGOs and the second track as well as by people to people's relations is in the field of education, formal and public, about ASEAN. This should be done in ASEAN schools which teach ASEAN subjects, namely history, politics, economy, social developments and cultural heritage.

This is also important in the specialisation among tertiary students in order to have expertise about each other. Although ASEAN universities are not as excellent as the best in Western countries, but good students should be encouraged to study about other ASEAN countries in the respective ASEAN universities.

An ASEAN university or a consortium of ASEAN universities should be able to support such effort. Of course, the government's role and support are critical, but public opinion will help to support these efforts, and the role of NGOs, the academics and students, should not be underestimated.

Another field which is critical for public education is the ASEAN press. A lot has been said about increasing their cooperation and here real support from publishers, editors and the owners of electronic media is of paramount importance and should be pushed by everyone who is interested in ASEAN's cooperation.

The role of academics in thinking through what should be done is most important because as has been said above, the developments that ASEAN faces is completely new and breathtaking. Therefore, good and solid thinking and new visions are most vital to ASEAN's new thinking about her own future and destiny and in working out how best to realise them. Here ASEAN-ISIS should take the lead and get others involved as well.

A lot has also been said about popular support for ASEAN's cooperation. Although the younger generation and the public in general thinks positively about ASEAN, it cannot be taken for granted that there will be sufficient support for new ventures in the future which require more participation and will be more complicated. Tourism will play an important role here, and the provision for a special immigration entrance from people of ASEAN countries will strengthen this awareness.

Other kinds of cooperation among professionals, such as lawyers, doctors, economists, women, labour unions, and others, will increase people to people contacts. The role of youth groups is also important, including in such fields as sports and the arts.

Although informal networking is the topic of this paper, ASEAN's organisational capabilities at the governmental level is a very important part in preparing ASEAN towards the next 25 years. It has to be developed in tandem with the NGOs, second-track activities. This implies more meeting of the Heads of Government, a strengthened AMM, AEM, JMM and also SOM, SEOM and Secretary General. The decision making process also has to improve. This means more consultations and deliberations among those institutions. More funding is a prerequisite.

ASEAN and South East Asia

From the decision of the AMM in Bangkok in July 1994 to invite Vietnam to become a member of ASEAN it is clear that the three other Southeast Asian nations, namely Laos, Cambodia and Myanmar, will in time be invited. Thus, of the two ideas, namely

membership of ASEAN for the four other Southeast Asian nations or the establishment of a new South East Asian Community for the ten nations, the former has been accepted by the AMM. They also proposed that Vietnam could become a member in time for the next ASEAN Summit in December 1995 in Bangkok. SOM and the Secretary General are being given the task to prepare Vietnam to be an ASEAN member.

Every year there is on average 220 ASEAN meetings. This will be a great burden to Vietnam. In addition, there are ASEAN agreements that Vietnam will have to adhere to in the various fields of activities. This requires adjustments of some national policies in Vietnam. But most important of all, the contacts and networking, the attitudes of compromise and consensus, the whole emotional ties that bind ASEAN in a *gemeinschaft* has to be learned and acquired by Vietnam.

This, of course, cannot be expected to be achieved in one year or so, since even ASEAN needed the first nine years of its existence to be able to develop it. And this is not only the work of the governments concerned, but the whole nation in the member countries has to be involved in the efforts to create a kind of "regional bond" where national interest will be tested immediately and automatically balanced with regional interests by decision makers and leaders in ASEAN. The first question they have to ask after their national interest has been defined in a regional context is: "what is in it for ASEAN; or how should ASEAN members react to it; or what should ASEAN do together in facing this particular problem".

Here NGO's, second-trade relations and networking, people to people relations is

vital to make Vietnam-ASEAN relations as strong as possible in a shorter time than ASEAN needed before. In that way Vietnam can catch up as a member in a shorter time, including in the emotional part of the "regional bond".

ASEAN-ISIS already has had a yearly South East Asia Forum, established five years ago, and has sent missions to Cambodia, with one planned to Vietnam and Myanmar in the near future to study how relations can be improved in all aspects by NGO's, particularly ASEAN-ISIS, and the Governments on both sides. There has been also a second track effort initiated by some scholars and supported by the Director General of the NSC of the President of the Philippines and the Deputy Foreign Minister of Thailand to strengthen the idea of one South East Asia. All these efforts and more of them are needed to make all the four other Southeast Asian nations to become members of ASEAN in the shortest possible time. First Vietnam, then Laos and Cambodia and lastly Myanmar.

Two constraints should be mentioned. *First*, is the need for the financial resources for the four nations to catch up with ASEAN activities. *Second*, human resources training is crucial for them. Japan can indeed play a vital role here since they have promised, from the time since Prime Minister Fukuda made the pledge and reiterated by Prime Minister Nakasone, Takeshita and Kaifu, about one peaceful South East Asia and Japan's willingness to come up with substantial aid to make that possible.

It is high time for ASEAN to work on those promises and develop concrete programs, by involving governments as well NGO's and second track networking.

ASEAN and the Asia Pacific

Two trends are pronounced in the developments of the Asia-Pacific. *First*, is the economic vibrancy and dynamism which have made the region the most rapidly developing part of the world. This is likely to be sustained at least until the beginning of the next century. *Second*, is the beginning of a peaceful era following the end of the Cold War and which can be maintained if a new regional order and new regional institutions can be successfully established.

The first trend has been going on since 1965 and the basis has been laid down over the past 25 years of economic growth in the region, beginning with Japan's economic rise and followed by the Asian NIEs, ASEAN and China. These regional interactions and integration in manufacturing activities have been led by business and the private sector, and have gone through a process of cooperation which make the Asia Pacific regional economic community gradually a reality and a necessity.

So, as distinct from the European Union which has been government led, the regional economic cooperation in the Asia Pacific has been market driven, especially by networking and cooperation among the private sector and the ideas cum studies of academics. In PAFTAD (Pacific Trade and Development, an association of economists) as well as in the PECC (Pacific Economic Cooperation Council, a tri-partite organisation consisting of business, academic and government officials in private capacity) ASEAN members have participated actively. It could be said that without ASEAN members consent in the PECC, it will be very difficult for a serious decision to go through. But the ASEAN caucus, as organised in the

PECC, means hard work, good preparations and active participation. And the driving force in the caucus has been the ASEAN-ISIS networking.

This also needs to be emulated in APEC (Asia Pacific Economic Cooperation), in order to make ASEAN's interests well heard and taken seriously. APEC, the inter-governmental forum for economic cooperation in the Asia Pacific has a lot of potentials and challenges to sustain the economic vibrancy and dynamism of the region. Here our bureaucracies and governments do need a lot of help, support and assistance from ASEAN NGOs and second track activities especially PECC and PAFTAD who are preparing the ideas and studies for future cooperation in the region. It is also important for ASEAN business networks to increase their cooperation through their joint ventures and networking with others in the region, also with the interest of ASEAN always in mind. This development in APEC is also relevant for the development in an EAEC which serves as a caucus within APEC. The process of EAEC that will be gradual also needs support and inputs from NGOs such as ASEAN-ISIS and ASEAN businessmen to be able to develop in the future.

In the political-security field a new era has started after the ending of the Cold War, with the need to develop new thinking. It is as if a new blank page is going to be written on. This provides an opportunity for ASEAN to participate with new ideas for stability, peace and development of the region. While other nations have been greatly influenced by old Cold War thinking, ASEAN has always been somewhat outside of the centre of the Cold War and has developed its own ideas. Those ideas stem

from an effort by small and medium-sized countries to escape the negative impact of the Cold War and to define for their own sub-region (South East Asia) its own destiny and its own regional order. While accepting the presence of the major powers, they do not want to be overwhelmed by any of them. This is the origin of the idea of the Zone of Peace, Freedom and Neutrality or ZOPFAN for South East Asia with the Treaty of Amity and Cooperation (TAC) as its legal instrument and the SEA-NWFZ (South East Asia Nuclear Weapon Free Zone) as a security sequence to the idea.

After the Cold War is over, the relevance of ZOPFAN has become more pronounced and accepted as the basic principles not only for a regional order for South East Asia, but also for the whole Asia Pacific region, as has been recognised by the ARF in July 1994. Now, the challenge is for ASEAN to reformulate the implementation of all the aspects of ZOPFAN and to bring it to relevance for the future and to work with other countries in the ARF to make it a more complete set of principles, objectives, rules of the game as well as to develop the necessary institutions.

For all this to happen a total effort is needed by ASEAN, and here NGOs and second-track support is vital to the success. They not only have to support it with visions, ideas and studies, but also with their networking and relations that are important to make those ideas and visions acceptable to the other members of the ARF.

This is what ASEAN-ISIS is trying to fulfill, by working directly with the ASEAN-SOM and the Special SOM (foreign, defence and armed forces senior officials), and with the second-track activity of the whole region

through CSCAP (Council for Security Cooperation of the Asia Pacific). Immediately coming to mind is the preparation for ARF-II in Brunei Darussalam 1995 on CSBM, peacekeeping cooperation including the idea of a Centre, comprehensive security, maritime security, non-proliferation, North East Asia Security Dialogue, and others.

ASEAN activities and initiatives on both account, in the economic and political security fields, have been accepted, largely due to the constraints being put on the great powers to be able to do so.

In the case of the USA, the ending of the Cold War has brought about the idea of a peace-dividend and how to formulate a new world order and her role as the only great power. But with a diminishing interest of the populace to get involved in security problems globally, it is not an easy proposition for the Administration to do so, especially with a President that put domestic matters as his priority.

With the PRC, her paramount interest is her domestic developments. She also is deliberating about what to do as the next great power in the region and in the world. Because of her history and experiences in the last 40 years her credibility for leadership has to be improved before it is accepted.

Japan is a reluctant great power and has yet to become a "normal country" in the Ozawa sense and therefore is lacking in initiatives even for her own security role in the future. She is also going through dramatic fundamental changes domestically which make it difficult for her in the near term to define a consensus on a specific security role in the region.

India, which has a potential in the future

of having a security role in the region is mainly confined to the sub-continent and still has to go through her structural changes economically before she really can play a greater role in the region.

ASEAN has become a successful regional community. It is a security and confidence building entity *par excellence*, where preventive diplomacy works, is no threat to any other country and has some good and relevant ideas to start the building of a regional order and to establish institutions for the future stability, peace and order of the whole Asia Pacific region. ASEAN is in a good position to take initiatives.

The ARF as a new regional forum will have confidence building and preventive diplomacy as its priority program in the first stage. It could then enhance the non-proliferation efforts in the region especially in mass destruction weapons such as nuclear, chemical and biological ones, as part of a strengthening of the international regime, and in so doing get into arms control of conventional weapons as well, such as through the Arms Register efforts, and other Arms Control Regimes; these include among other things:

- A Regional Airspace Surveillance and Control Regime;
- A Regional Technology Monitoring Regime;
- A Resource and Information Centre on Arms Transfer and Production; and
- A Regional Security Assessment Centre.

In the end, after the medium term efforts to establish CSBMs and Arms Control, the ARF should strengthen both the collective security mechanism internationally (at the UN level) and regionally for the Asia Pacific. In all these efforts NGOs, second-

track activities and networking are crucial for the governments, and a close cooperation among them is a pre-requisite for success.

ASEAN and the UN

If APEC and its concurrent second-track approaches (PECC-PAFTAD-PBEC), as well as ARF and CSCAP will be effective, then it will have an impact on the global economic and political system. That means that ASEAN and its initiatives has an impact on the global system as well.

In various efforts, ASEAN, through second-track activities has deliberated on UN-ASEAN relations and has been able to strengthen the idea of a division of labour between the UN and regional entities such as ASEAN, as have been provided for in the UN Charter (Chapter VIII) and in the "Agenda for Peace" of the Secretary General.

It is worthwhile to continue this effort and expand it with an ASEAN input on how to reform the UN, which seriously will be taken up in 1995. This effort, also has been taken up by other multilateral institutions, such as the NAM (Non Aligned Movement) and several UN Special Commissions.

It is worthwhile for ASEAN to look into these efforts and make an assessment for their own interest. The same second-track effort initiated and implemented by the Thai Government and Institute for Policy Studies (IPS) could be used again for this important effort. ASEAN-ISIS, which is now making a more in-depth study on "Peace-keeping in ASEAN: Past and Present" will be ready to participate again.

Conclusion

What ASEAN needs is *total diplomacy*, in which all groups in society participate in dealing with their counterpart concerned within and outside ASEAN besides the involvement of governments. That is why NGOs like the ASEAN-ISIS and others, are participating in improving ASEAN all the time, deepening and widening its cooperation in the economic and political-security fields first among its members as a pre-requisite for ASEAN initiatives in the greater Asia Pacific region. ASEAN-ISIS is prepared to help in developing the vision, ideas and studies on how to improve ASEAN itself and its relations with others in South East Asia, Asia Pacific and globally.

The private sector is especially important to implement the cooperation in the economic field in ASEAN and South East Asia as well as for the whole Asia Pacific, either through the businessmen networking and clubs as well as through the role of the ASEAN Chamber of Commerce and Industry.

The universities and tertiary level organisations, with the involvement of the education community at large, should enhance the understanding on ASEAN through studies and knowing each other, and thus help educate the next generations to improve their knowledge, understanding and commitment to ASEAN. The young leaders especially can enhance this relationship through sports, arts and other kinds of practical cooperation among the youth. Women has to participate and guarantee that more than half of the population will be very much part of this community building effort.

The media is an important vehicle for

public education purposes, as well as a forum to debate on new ideas and new types of cooperation within and outside ASEAN. It also is an important vehicle for oversight and control. So every functional group has its own role, activity and contributions to make in the development of an ASEAN community and its role in the greater Asia Pacific region.

Last but not least, the governments should support these efforts and guide them whenever necessary, coordinate and let them do whatever is important for the common vision of building a peaceful and prosperous Asia Pacific and the world, where ASEAN should be a vital part and its role can make a difference to the region and to the world at large.

ASEAN's Role and Development as a Security Community

Paridah Abdul Samad and Mokhtar Muhammad

Background

ASEAN's formation in 1967 was based on the belief that local disputes were wasteful and self-defeating.¹ Since its founding in 1967, the chief goal of ASEAN has been to prevent, manage and resolve conflicts in the region. The formation of ASEAN would actually facilitate the development of "security community".

"Security community" is defined by Karl Deutsch as a group of states whose members share "dependable expectations of peaceful change in their mutual relations and rule out the use of force as a means of problem-solving".² The main key of security community is the condition where disputes among all members should be resolved.

¹Sheldon W. Simon, "ASEAN Security in 1990s", *Asian Survey* XXIX, no. 6 (June 1989): 581.

²Karl W. Deutsch, *Political Community in the North Atlantic Area* (Princeton, New Jersey: Princeton University Press, 1957), 5.

ASEAN has not yet reached the stage of a "security community".³ The prospect for a "security community" needs ASEAN to resolve the disputes which currently divide its present membership.

This paper will explore and explain the circumstances allowing and preventing ASEAN from evolving as a "security community" or other forms of security organisation such as "defence community" and "security regime".

ASEAN's Development as a "Security Community"

The task of intra-regional conflict reduction had assumed importance in view of the failure of previous attempts at regional unity, as in the case of ASA (the Association of Southeast Asia) and MAPHILINDO (the

³Amitav Acharya, "Regional Military-Security Cooperation in the Third World: A Conceptual Analysis of the Relevance and Limitations of ASEAN", *Journal of Peace Research* 29, no. 1 (February 1992): 12.

Association of Malaysia, the Philippines and Indonesia). Singapore's tension-ridden ties with its Malay neighbours following its separation from Malaysia in 1965 added to the challenges facing the viability of the ASEAN experiment. Against this backdrop, ASEAN's first urgent task was not to forge military alliance, but to defuse the sources of tension among them.⁴ As a matter of fact the promoting of a long-term habit of cooperation that formed the core of ASEAN's political role in its early years has moved the grouping towards a regional "security community".

ASEAN may be a "security community" in a sense no member would seriously consider to use force against another to settle disputes. There is no denying that the current state of relations between ASEAN states is different from the tense period at the time of its formation.

Before the formation of ASEAN, its present members were engaged in a series of confrontational moves and countermoves that threatened peace and security. The stable political environment has been fostered since it was founded in 1967.

The ASEAN leaders deal security alongside with social, economic and well-being of a nation. It involves the peaceful progress, development and betterment of the states. Since it relates to the quality or condition of being secure, it must be free from exposure to danger and it must be assured of safety and certainty. Security lies not in military alliance but in a broad redefining of security in terms of socio-economic development.

Although within the context of its founding principles, the ASEAN countries have focused primarily on economic matters, with a secondary accent on political issues, the impact of the Indochina conflict has made ASEAN to promote its political and military cooperation.

Military cooperation is not the prime concern of ASEAN in promoting its security cooperation which could become a barrier to the development of an ASEAN "defence community". It could however be viable towards the formation of an ASEAN "security community".

Security can be addressed from two perspectives, at the state level and at the international level. Security concern is not only limited to the resilience of the individual state but also at the regional ones.⁵

ASEAN has developed into a useful forum for the discussion of security issues, both regional and extra-regional and has also served as a mechanism for the moderating of intra-ASEAN tensions and threat perceptions. A high-profile danger or threat will galvanise the ASEAN governments into a joint and concerted action.

Two major developments in the Asia Pacific region that could force ASEAN to seriously consider to promote security cooperation which would push the grouping towards regional "security community" are: *First*, if the withdrawal of US military presence from the region occurs earlier, and faster than expected. *Second*, if China develops its military capabilities, especially her strategic capabilities (air and naval)

⁴Amitav Acharya, "The Association of Southeast Asian Nations: Security Community or Defence Community?" *Pacific Affairs* 64, no. 2 (Summer 1991): 161.

⁵For further information, please refer to Barry Buzan, "The Southeast Asian Security Complex", *Contemporary Southeast Asia* 10, no. 1 (June 1988): 2.

beyond what is considered adequate for its defence requirements.

ASEAN has achieved relative peace, stability and security. The current state of relations between ASEAN states is qualitatively different from the time of the grouping's formation. ASEAN has indeed become a "security community" in the sense that its members do not foresee the prospect for resorting to armed confrontation among themselves to resolve existing bilateral disputes.

No single country can easily threaten to dominate another country. Only the two most populous states, Indonesia and Vietnam, actively cultivate images of themselves as regional great powers, but both have economies much too weak to support any bid for regional hegemony.

Even ASEAN has achieved relative peace, stability and security; ASEAN has not yet fully developed into a cohesive entity like the European Community. The political and economic integration of ASEAN is still low. One explanation of the low degree of integration of ASEAN is the existence of enormous disparities among member nations.

ASEAN experience is different compared to the EEC. The success of the European Economic Community (EEC) came after decades they were at odds with each other and were engaged in major wars to resolve their problems of boundaries and power status. The resolution of such conflicts through the establishment of communication among themselves has resulted in the successful development of the EEC as a viable regional organisation.⁶

⁶Lau Teik Soon, *New Direction in the International Relations of Southeast Asia: The Great Powers and*

EEC integration took place in a highly industrialised and competitive setting. In spite of this intra-regional trade was substantial having been made possible by the high degree of specialisation, and consequently produce differentiation within any broad class of products. This of course accelerated the process of integration of the EEC states.

The development of Indonesia-Malaysia-Singapore "triangle" raises the question whether ASEAN can truly be regarded as a "security community". This Growth Triangle involves the participation of the central governments, and the public sectors. The success of the Growth Triangle needs the support not only from the states/provincial leaders (Johor and Riau cases) but also from the national political leaders, where these state/provincial leaders come under central authority.⁷

National leaders will support such sub-national external collaboration if they see tangible benefits to the participating state and country and do not fear any competition or challenge to their national roles and decision-making authority.⁸

Since the micro-level activities are not discriminatory to activities at the larger ASEAN level, the Growth Triangle will be an asset to the three members since it will encourage closer cooperations.⁹ However, such Growth Triangle cannot make ASEAN

Southeast Asia (Singapore: Singapore University Press, 1973), 165.

⁷Puspha Thambipillai, "The ASEAN Growth Triangle: The Convergence of National and Sub-National Interests", *Contemporary Southeast Asia* 13, no. 13 (December 1993): 299.

⁸*Ibid.*, 299.

⁹*Ibid.*, 310.

into a "security community" in Deutschian terminology.

The prospect for a "security community" is not only the concern of the role of ASEAN in resolving the disputes which currently divide its present membership but also its role in successfully managing and resolving the wide regional conflict over Cambodia. Although regional conflicts such as Cambodia do not affect members directly, this unsettled crisis could threaten the resilience of ASEAN.

Thus, ASEAN is facing two daunting challenges: *firstly* of overcoming several lingering intra-ASEAN disputes that are potentially disruptive of regional peace, and *secondly*, of reaching a consensus on how to approach the task of eventual reconciliation with Vietnam and thereby move the sub-regional (ASEAN) "security community" to a regional (Southeast Asian) entity.

The ASEAN's effort of reconciliation with Vietnam carries important risks as well as opportunities for the promotion of ASEAN security. Given the cementing role of anti-communism, and informal nature of much of ASEAN political cooperation, Vietnamese membership would undoubtedly dilute ASEAN's political unity. Differences in the level of development between the present ASEAN members and the Indochinese states might undermine the prospect for regional economic cooperation.

ASEAN has invited Vietnam to be one of its members. Vietnamese membership could improve the climate for ASEAN's security. ASEAN could rid the region of antagonism and be a force for cooperation, even with (Vietnam's) communist ideology.

The success in promoting reconciliation with Indochina could develop a wider re-

gional "security community" which will take precedence over any prospective pattern of military links that might justify the label of an ASEAN "defence community".

ASEAN has also devoted to the task of providing a forum for a regional reconciliation in settling its members territorial disputes with the Indochinese states. This devotion and its acceptance as mechanisms for the peaceful settlement of their disputes which have consequently served to mediate threats, could settle ASEAN into a "security community". An ASEAN "security community" in Karl Deutsch's sense, therefore fits, in which there no longer is an expectation of the use of force by one member against another.

Intra-ASEAN Disputes

After independence, ASEAN countries found themselves remote from one another and engaged in territorial conflicts. The obvious territorial conflict is the claims over Sabah. Less obvious but increasingly important are the ill-defined boundaries between Malaysia and Thailand. Besides, there has been a series of strained fluctuating relations between Malaysia and Singapore.

The territorial dispute between Malaysia and the Philippines was only one of a number of tests of the unity of ASEAN evident in its early years. The inevitably high level of tension between the Philippines and Malaysia in 1988 over conflicting territorial claims in the South China Sea confirmed that intra-ASEAN peace still cannot be taken for granted.

The Spratlys dispute can be quoted as the next potential flashpoint for conflict in

Southeast Asia. Most of the claimants (the Philippines, Malaysia, Cambodia, Thailand, Vietnam and Brunei) maintain some military presence in the Spratlys, with Vietnam and the PRC having the largest military presence. Significantly, hostile confrontation between the two occurred in 1988 and rhetoric has remained high on both sides. On the whole, the occupying nations in the Spratlys appear determined to consolidate their established footholds and pursue their respective territorial claims.

The island-state of Singapore was also at the centre of intra-mural tensions which arose from the related circumstances of its separation from Malaysia and Malaysia's re-approachment with Indonesia.

On attaining an unexpected independence in August 1965, the government in Singapore exhibited an acute sense of vulnerability. Because of the Republic's minute scale, circumscribed location, regional entrepot role, and prevailing ethnic-Chinese identity, the government of Singapore was hypersensitive to any presumed slights and challenges to its newly found international status. Singapore also feels that ASEAN might not serve the security interests of Singapore through providing a regional structure of consultation and cooperation.

The issue of Malaysia's and Thailand's common border has interposed to a troubled relationship. Thai Foreign Ministry officials made known their concern over Malaysia's irredentist proclivity. In July 1976 a Malaysia para-military presence was instructed to withdraw from its longstanding position just north of the border following an armed incursion from the Malaysian side.

All these problems have remained unresolved and thus is a complexity of attitudes

towards each other (distrust, suspicion, fears and even animosity). These long-standing conflicts would cripple the organisation if the leaders decide to pursue them to the end.

Certain members of ASEAN apparently purchase sophisticated weapons system to a greater or lesser degree either for reasons of prestige or as a deterrent against other ASEAN members, the most recent example may be by the ordering of F-16 fighter aircrafts by Thailand, Singapore, Indonesia and Malaysia.¹⁰

Malaysian allegations towards Singapore on its restriction of Malay's service in the SAF, and Malaysian limitation of Singaporean army units to exercise in Malaysian soil reflect the mutual suspicions of these two countries.¹¹

After the major five-power exercise "Bersatu Padu" in 1971, in which a Singaporean battalion participated, Kuala Lumpur did not allow Singaporean army units to exercise in Malaysian soil until late 1989. But the October 1989 exercise was limited in scope (involving only a company of SAF troops) and was held in Sarawak.¹²

In 1990 joint exercises were suspended by the Malaysian side. In May 1991, when the Malaysian defence minister announced the planned resumption of naval and air exercises, he made it clear that there was no immediate prospect of further bilateral land exercises.¹³ Bilateral Malaysia and Singapore

¹⁰Tim Huxley, "ASEAN Security Cooperation -- Past, Present and Future", Allison Broinowski (ed.), *ASEAN in the 1990* (London: The MacMillan Press Ltd., 1990), 93.

¹¹Tim Huxley, "Singapore and Malaysia: A Precarious Balance?", *Pacific Review* 4, no. 3 (1991): 207.

¹²Ibid.

¹³Ibid.

defence cooperation which has in reality been rather limited and superficial hardly constitute a "security community".

Unqualified Status of ASEAN's "Security Community"

Although ASEAN has come a long way in reducing tensions between its members, it has not yet reached the stage of a "security community". A number of actual or potential conflict situations remain. The degree of mistrust also means that some ASEAN states continue to plan against potential military threats from others, and these are partly reflected in competitive arms acquisitions that have been a marked feature of defence build-ups of ASEAN states.

As such, ASEAN is most unlikely to become in the next decade (if ever at all) a security community, in Karl Deutsch's meaning of this notion, with high mutual responsiveness and low expectations of violent mutual conflicts. Low expectations of mutual conflict are reflected in the absence of military preparation for mutual hostilities.¹⁴ There are simply none of the conditions of mutual benefits and exchanges that can provide enough impetus for concerted regional efforts towards a structured form of cooperation.

ASEAN has been established on a very weak foundation. Common cultural, ideological and historical experience are absent and most importantly, there is no common threat.¹⁵ Even at the time ASEAN was formed there was really little communication among the members, and conflicts among

them remain unresolved.

The condition of mutual benefits requires the member countries to arrange and to talk together seriously about their problems, make agreed arrangements for their mutual interests and relations, and adjust their mutual differences by methods of peaceful change. Thus, there must be communication among the members, so that mutual trust and understanding of each other's problems can develop and conflicts can be resolved amicably.

The organisation is not able to find any common ground to create a front against any external or internal enemy. The members' having a common threat is one of the important condition of a "security community" which could facilitate driving ASEAN towards a meaningful regional security organisation.

The mechanism provided by the Treaty of Amity and Cooperation to resolve the regional countries' own outstanding territorial claims is expected to be a basis for establishing a code of international conduct over the South China Sea. The United Nations resolution on the Treaty of Amity and Cooperation in South East Asia was only accepted by consensus at the 47th UN General Assembly in 1992. For a long period, ASEAN members have devoted to serve and to preserve intra-ASEAN political cohesion with some limitation.¹⁶ The members seem to confront the issues of conflict through informal measures without any serious consideration being given to the drawbacks.

¹⁴Lau Teik Soon, *New Direction in the International Relations*, 164.

¹⁵B.A. Hamzah, "ASEAN Military Cooperation without Pact and Threat", in paper presented at Con-

ference on Regional Development and Security: The Ties that Bind, the 2nd Meeting of ASEAN Institute of Strategies Studies, 12-16 January, Kuala Lumpur, 1986, 11 and 23.

¹⁶R.P. Anand Purificacion V. Quisumbing, *ASEAN, Identity, Development and Culture* (Quezon:

In the effort to develop a wider regional "security community", it is significant to note that while the ASEAN states have revised their attitudes to their counterparts in Indo China especially in the wake of the Cambodian settlement in October 1991, they have done nothing of substance to strengthen the emergent security beyond sustaining an informal practice. This can be related to the significance of the regional complexity of the Southeast Asian region.¹⁷

Southeast Asia is composed of nine states sharply divided into two groups: a communist-led Soviet-aligned and Vietnamese dominated group of three (Vietnam, Laos, Kampuchea) and a non-Communist Western oriented group of six, organised since 1967, ASEAN (Indonesia, Malaysia, the Philippines, Singapore, Thailand and since 1984 Brunei).

Burma is arguably a tenth member but in security terms it is most accurately described as a buffer state or zone of relative security indifference, between the South and South-east Asia.

In sum, ASEAN can claim qualified, though tenuous success as a "security community". Intra-ASEAN differences in the timing and approach to these goals complicate the prospect for enduring a "security community" among ASEAN states.

The ASEAN "security community" as it stands now, needs to be not only strengthened and secured against a host of potential intermember conflicts, but also broadened

University of the Philippines Law Center, 1981), 169. Also see Michael Leifer, "Debating Asian Security: Michael Leifer Responds to Geoffrey Wiseman", *Pacific Review* 5, no. 2 (1992): 167.

¹⁷For further information, please refer to Barry Buzan, "The Southeast Asia Security Complex", *Contemporary Southeast Asia* 10, no. 1 (June 1988): 4.

by bringing into its fold the Indochinese states and developing a modus vivendi for regional reconciliation between the Communist and non-Communist segments of Southeast Asia.

ASEAN "security community" could be served by the organisation's being devoted to preserve intra-ASEAN political cohesion, promoting the return of the Indochinese countries to the regional system, and resolving the contradictions that surround the professed objectives of ZOPFAN and SEANFZ (South East Asia Nuclear Free Zone).

All these tasks indicate a credible regional "security community" is not only important for ASEAN, but its realisation is also a necessary foundation without which any prospective pattern of military links that might justify the label of an ASEAN "defence community" would be impractical and meaningless.

Other Alternatives of Security Organisation

Since ASEAN has not yet reached the stage of a "security community", the form of ASEAN "defence community" is also unlikely by the obstacles of unresolved intra-ASEAN disputes, even though no member would seriously consider to use force against another to settle disputes.¹⁸

At the earlier stage, there was a suggestion that ASEAN should develop some form of military role that is associated to the concept of a "defence community". As ASEAN enters an era of uncertainty and change, the call for a "defence community" assumed

¹⁸Sheldon W. Simon, "The Regionalisation of Defence in Southeast Asia", *Pacific Review* 5, no. 2 (1992): 122.

that intra-ASEAN would take a new height of political and military cooperation.

The very idea of an ASEAN "defence community" implying the need for some form of trilateral or multilateral military arrangement within the grouping constitutes a markedly different goal than the idea of "security community" which is focused on cooperation to resolve disputes and conflicts within the regional grouping.¹⁹ "Defence community" would go beyond existing bilateral cooperation and might possibly involve cooperation on arms manufacturing.²⁰ In fact the ASEAN leaders debated the idea calling for a "defence community" in the first ASEAN Summit held in Bali in 1976 but rejected the alliance opinion.

Instead, the Declaration of ASEAN concord endorsed existing bilateral military ties by calling for the continuation of cooperation on a non-ASEAN basis between member states in security matters in accordance with their mutual needs and interests.

ASEAN defence and security cooperation is well established at the bilateral level, involving the exchange of military intelligence, sending officers to staff colleges and joint exercises between the ASEAN members. Such cooperation performs a useful "confidence-building" role by reducing sus-

picious concerning the possibility of military adventurism among the members.

Another area of defence cooperation which is often mentioned as suitable for greater ASEAN activity, is in weapon standardisation and joint procurement leading towards greater interoperability. Although officials from each state of ASEAN sometimes call for weapon standardisation and joint procurement as budget stretching devices, no such policy has ever been implemented.²¹

ASEAN militaries follow different doctrines, speak different languages, and for the most part, employ incompatible logistic systems. Those weapon systems which ASEAN armed forces have in common (F-5s, A-4s, F-16s and Scorpion light tanks) are more a matter of accident than planning. Joint procurement was never attempted to reduce costs since there is no coordination among the budget cycles of each country.

ASEAN leaders continue to resist the idea of an alliance by contending that without a military pact the ASEAN states can cooperate more flexibly. ASEAN leaders are skeptical of the usefulness of intra-ASEAN security commitments, in terms of deterrence value. They are also doubtful if an ASEAN alliance would really deter any would-be aggressor.

This resistance indicates that ASEAN military arrangement is deemed unnecessary or unimportant. It has been seen as a dangerous concept which would bring significant harm to the security interests of its member states. In this respect, the goal of creating a "security community" at a sub-regional and regional level has not only

¹⁹Amitav Acharya, "The Association of Southeast Asia Nations: 'Security Community' or 'Defence Community'?", *Pacific Affairs* 64, no. 2 (Summer 1991): 159. Also see Amitav Acharya, "The Association of the Southeast Asian Nations: 'Security Community' or 'Defence Community'?", Conference on the Changing Context of Security Relations in Southeast Asia, Centre for Strategic and International Studies, York University, York University, Montebello, Quebec, 1-4 May, 1990.

²⁰*Straits Times*, 5 May 1989 and *Sunday Times*, 14 May 1989, Singapore.

²¹Sheldon W. Simon, "ASEAN Security in 1990s, *Asian Survey* XXIX, no. 6 (June 1989): 114.

assumed priority over any latent rationale for a military pact, but the latter has been considered subversive of the former. A "more defined security community" was considered as more appropriate for the regional security concern.

Geoffrey Wiseman suggests that there is evidence of an emerging security regime in ASEAN.²² There is the existence of the condition where the member states cooperate to manage their disputes and avoid war. There is also the existence of the condition in ASEAN, a new set of attitudes and informal conflict-avoidance mechanisms which currently make war between the member states unlikely.

Those principles, rules and norms in the context of "security regime", permit nations to be restrained in their behaviour, in the belief that others will reciprocate. This concept facilitate cooperation.²³

At a higher level of norm development and cooperation, regional states might operate a "security community" characterised in Deutsch's term, by expectations of peaceful change, and a very high level of cooperation.²⁴

Security regime can be related to the condition where states in a region might observe and expect others to observe, certain principles and rules of restraint in their political

and military relations.²⁵ "Security regime" is both valuable and difficult to achieve (valuable, because individualistic actions are not costly but dangerous, and difficult to achieve, because of the fear that the other will violate the common understanding). There is a potent incentive for each state to strike out on its own even if it would prefer the regime to prosper.²⁶

If any regime felt gravely threatened it would be more likely to appeal for help from outside the region rather than from fellow members within it. In this way, the domestic, local and great power security dynamics reinforce each other to keep the region both divided within itself and generated by more powerful outside interests.

The other conditions for forming and maintenance of a security regime is the need of the great powers support to establish the regime,²⁷ that is, they must create a more regulated political environment in which all states behave individualistically. It also requires the actors to believe that others share the value they place on mutual security and cooperation, if a state believes it is being confronted, it will not seek a regime. In principle this is simple enough, in practice, determining whether others are willing to forgo the chance of forcible expansion is rarely easy. Indeed, decision makers probably overestimate more than underestimate other aggressiveness.

In several cases security regime may have been ruled out not by the fact that a major power was an aggressor but by the fact that others incorrectly perceived it as a aggressor.

²⁵Ibid.

²⁶Robert Jervis, "Security Regimes", *International Organisation* 36, no. 2 (Spring 1982): 358.

²⁷Ibid., 560.

²²Geoffrey Wiseman, "Common Security in the Asia-Pacific Region", *Pacific Review* 5, no. 1 (1992): 46.

²³Pekka Sivonen, "European Security: New, Old and Borrowed", *Journal of Peace Research* 27, no. 4 (1990): 384.

²⁴Geoffrey Wiseman, "Common Security in the Asia-Pacific Region", *Pacific Review* 5, no. 1 (1992): 46.

China's Defence Policy and Security in the Asia Pacific*

Rizal Sukma

IN any discussion on political and security issues in the Asia Pacific region, China's presence has always been seen as a significant factor. This China factor has even become more significant for the security in the region since the end of the Cold War. In this regard China has been often referred to as a power which -- at least potentially -- intends to assert itself as a dominant power in the region, through a combined strategy of national economic development and independent foreign policy. In this case, changes in China's strategic thinking which guides the implementation of its defence policy, constitute the most important aspect of what has been regarded as a potential "China threat".

What are the factors that motivated China to change its defence strategy, and in

what way did the change take place? In what aspect is China considered as a threat? What are the constraints faced by the country in modernising its armed forces? And what is the nature of China's military build-up? This article tries to highlight the PRC defence policy since the end of the Cold War and its implication for the security of the Asia Pacific region.

The following discussion is divided into four sections. The first section explores the Chinese leaders' perception of global and regional security environment and their perception of threats against China's national security. The second section discusses the development of military strategic thinking which forms the basis of Chinese defence policy. The third section examines the operational aspects of China's military build-up. Finally, the last section looks at the implication of the PRC defence policy for the future of Asia Pacific security, and some policy options that may be considered by both ASEAN and Indonesia.

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Global and Regional Security Environment: Zhongnanhai's Strategic Perception

Contradiction is still the main component of the Chinese leaders' perception of global and regional political situation in the post Cold War era. In this case, various political statements by Chinese leaders as well as analyses made by Chinese strategists have revealed an optimistic-pessimistic spectrum in light of the global and regional development.

At the global level, Chinese leaders generally welcome the end of the Cold War era. They believe that the termination of confrontation between the two superpowers will rule out the possibility of a global war in this 20th century.¹ However, by and large, they still consider the global situation prone to vulnerabilities. In this case, the Chinese leaders express their pessimistic view in assessing the trend of international development in the post Cold War era. Pessimism concerning the creation of a more just world order has been evident in their identification of three main characteristics of contemporary global politics.

First, Chinese leaders assess that the bipolar structure has fallen apart, but a new structure has not as yet come up with its definite form. Besides, the international world at present is full of new contradictions. For example, the world after the Cold War is to face the outbreak of ethnic, territorial and religious conflicts. Such a view was, among others expressed by Secretary General of the Chinese Communist Party (CCP) Jiang Zemin at the 14th CCP Meeting

in October 1992.²

Second, after the disintegration of the Soviet Union, the US is perceived to be a victorious "single superpower" of the Cold War. Beijing fears that the US was trying to create a new world order based on American values, culture and ideology. At this juncture the US and some Western countries are seen by the leaders in Beijing as adopting a foreign policy based on power politics. In this context, Chinese leaders are convinced that the US would prevent any regional power from becoming a threat to its own interests.³

Nevertheless, the Chinese leaders also notice that the US is presently facing enormous domestic problems, particularly due to the decline of its economic power. In order to revitalise its economy, the US is expected to become increasingly aggressive economically. Consequently, competition will escalate between the US and its capitalist allies such as Japan and Germany.⁴ Therefore, Beijing sees an inevitable development towards a multipolarisation of world order. In other words, China believes that a multipolar world is in the making.⁵

Third, the Chinese leaders and analysts estimate that economic competition will increasingly intensify, and competition among nations to increase "comprehensive national strength" is bound to happen. They realise

²*Beijing Review* 35, no. 43 (26 October - 1 November 1992): 26.

³Arthur S. Ding, "Peking's Foreign Policy in the Changing World," *Issues & Studies* 27, no. 8 (August 1991): 20.

⁴*Beijing Review* 36, no. 2 (11-17 January 1993): 9.

⁵See John W. Carver, "China and New World Order," in William Joseph, *China Briefing 1992* (New York: The Asia Society, 1993): 55-80.

¹Shulong Chu, "The PRC Girds for Limited, High-Tech War," *ORBIS* (Spring 1994): 178.

that the position of a nation in an international system depends on its own national strength. Accordingly, if China wants to raise its international position, it has to compete strongly in order to increase its "comprehensive national strength".

In a condition perceived as such, it is not surprising if the Chinese leaders never rule out the possibility of conflict among nations. Their view of the international situation today is even far more pessimistic than that of leaders of other countries. Although they welcome the end of the Cold War, they do not perceive the present situation as the beginning of a more peaceful world order. For example, they often refer to the Iraqi invasion of Kuwait and the Gulf War as evidence that instability and conflict still constitute the main characteristics of international relations. In other words, they believe that it is still uncertain whether the present world situation would be more stable than that of the previous era.

Such a view, for example, was expressed by Premier Li Peng before the National People's Congress in March 1991:

"While we welcome the changes caused by the relaxation of regional conflicts and the prospects for their political settlement, the grim facts show that our world is not peaceful, that peace and development which people of the world over aspire to are still facing a severe challenge, and that hegemonism and power politics still continue to develop. The facts also show that certain hidden political, economical, and national problems have come to the fore, that the disparity in the balance of strength has also triggered new contradictions, and that the difference between the haves and have-nots in the North and the South has continued to widen. In fact, because of the intertwining new and old contradictions, the world has become even more turbulent."⁶

⁶*China Daily*, 21 March 1991, quoted from Shulong Chu, "The PRC Girds," 178.

Unlike their pessimistic view of global political situation, Chinese leaders tend to be more optimistic in assessing the situation of the Asia Pacific region. During his visit to Singapore, for example, former China's President Yang Shangkun held that the situation in Asia was much better than the world situation, which he perceived as being unstable, since he believed that the situation in Asia was becoming more peaceful and stable.⁷ A similar perception was also expressed by China's Foreign Minister Qian Qichen on various occasions, in China itself and in various international fora.

The relatively more "pleasant" situation in the Asia Pacific as perceived by Beijing has been often based on the positive development of the region since the late 1980s. For example, Beijing succeeded in promoting its relations with all ASEAN member countries after normalisation between Indonesia and China and the establishment of diplomatic relations between China and Singapore. Its relations with Vietnam has also ameliorated. Moreover, China's position in East Asia has increasingly turned into a better one thanks to the improving relations between China and South Korea and the Tokyo-Beijing economic relationship. More significantly, China's involvement in the dynamics of regional economic cooperation has also facilitated the realisation of good neighbourly relationship between China and other Asian countries.

One of China's security concerns in the Asia Pacific region is Japan. China perceives Japan's future policy and position as full of uncertainties. China is apprehensive about Japan becoming a military and political

⁷*Renmin Ribao*, 10 January 1992, quoted from *ibid.*, 180.

threat to the country over the next century.⁸ This is assumed to occur as a consequence of the deteriorating Tokyo-Washington alliance due to conflicting economic and commercial interests between the two countries. In China's view it seems unavoidable that Japan would immediately make efforts to build an independent military capability in accordance with its global economic power at present. In other words, the increasing Japan's security role may gradually pose a threat to China's interests in the region.

However, by and large Chinese leaders do not deny the fact that the current global situation has also provided a favourable opportunity for China. The termination of a direct military threat as a consequence of the collapse of the Soviet Union has enabled China to carry on its economic development without any disturbances from outside. This is a new condition for China, which the country has never experienced before since 1949. In Beijing's view, this new condition will in turn call for adjustments in various areas including the field of defence.

Strategic Change in China's Defence Policy

Changes in the strategic environment as perceived by Beijing have also been followed by various adjustments in strategic thinking to provide guidance for China's defence policy. China's leaders and strategic defence planners realised that a new condition also require a new strategy. This change has been evident since the mid-1980s, which was then

formalised as a political decision in October 1987.⁹

That change has been depicted by some Chinese strategists as a "strategic change", namely "a change in the guiding thinking of the national defence build-up."¹⁰ The essence of this change is to change the operation of the whole national system in a state of war or in a situation close to war into a normal peace time. The rationale is that current China's defence policy has to be subordinated to and directed towards supporting national economic development which has been given first priority by the Zhongnanhai regime since 1978.

Initially, China's defence strategy was more focussed on two strategic components, namely territorial defence and coastal defence. For China, the essence of defence and security is incorporated in the doctrine of "People's War". This doctrine is based on the Communists' experience in the war against Japan and later, against the Nationalists during the 1930s and 1940s. In operational terms, the "People's War" implicitly relies on the human element, infantry operation, guerrilla warfare. It is this guerrilla warfare that has often been associated with the essence of the "People's War" strategy in Mao Zedong's conception.¹¹ In the course of its development, since Mao's death this doctrine has been explicitly further developed into "People's War in Modern Con-

⁹Chen Xiaogong and Liu Xige, "Several Questions Concerning China's National Defence Policy," *International Strategic Studies* 2 (June 1993): 1.

¹⁰Ibid.

¹¹Harlan W. Jenks, "People's War Under Modern Conditions: Wishful Thinking, National Suicide, or Effective Deterrent?" *China Quarterly* 98 (June 1984): 310-311.

⁸Bonnie S. Glaser, "China's Security Perception: Interests and Ambitions," *Asian Survey* XXXIII, no. 3 (March, 1993).

ditions," which explicitly emphasises the significance of arms technology in the face of modern warfare.¹²

During the period where the doctrine of territorial defence was dominant, China did not lay too much emphasis on the conception and strategy of the navy. Until the early 1980s, China's doctrine on maritime strategy was still based on the thinking of former Naval Chief of Staff, Xiao Jingguang, which was developed in 1950. This doctrine asserted that:

"The navy should be a light type navy, capable of inshore defence. Its key mission is to accompany the ground forces in war actions. The basic characteristic of this navy is fast deployment, based on its lightness."¹³

Xiao's formulation constituted the basis of the coastal defence strategy, which stood as the second component of China's national defence strategy.

These two strategies were indeed directed towards more limited objectives, in compliance with China's security needs and interests at that time. Since the Korea War, China's security needs have been centred on the need to deter threats in the form of conventional aggression. China's operation at that time was aimed at blocking the enemy at the border regions, showing effective striking power and preemptive strike capability against outside aggression. Later on, this strategy has also been equipped with limited

¹²For a more comprehensive discussion on this matter, see Rizal Sukma, *Pemikiran Strategis Cina: Dari Mao Zedong ke Deng Xiaoping* [China's Strategic Thinking: From Mao to Deng] (Jakarta: CSIS, forthcoming).

¹³Quoted from You Xu and You Ji, *In Search of Blue Water Power: The PLA Navy's Maritime Strategy in the 1990s and Beyond*, Working Paper no. 222 (Canberra: RSPS, December 1990), 3.

nuclear deterrent since 1964, and ten years later with intercontinental ballistic missile capability.¹⁴

The debate on strategy which has become increasingly intensive since the early 1980s resulted in the formulation of the strategy of "active defence" (*jiji fangyu*). Deng Xiaoping himself is the main proponent of this strategy. According to Deng Xiaoping, the principles of the "active defence" strategy should enable China to create an effective defence system. In line with this strategy, China should also be able to defer the outbreak of war, but in a state of war it must also be able to hold back the enemy's attack and change the balance of power through defensive and offensive operations so as to gain victory in a war of self-defence. Hence, Deng asserted: "Which guiding principle shall we adopt for a future war against aggression? What I am in favour of is these words, 'active defence'."¹⁵

This strategy has been widely supported by Chinese leaders and strategists in line with changes in their perception of types of warfare that may be faced by the country in the future. By and large, the "active defence" doctrine has been geared to face three types of warfare, namely: (1) world war; (2) large-scale war in the face of foreign aggression against China; and (3) border conflict or limited war. However, in compliance with the changed perception of Chinese leaders with regard to the international environment as mentioned earlier, since the late 1980s

¹⁴David Shambaugh, "Growing Strong: China's Challenge to Asian Security," *Survival* 36, no. 2 (Summer 1994): 53.

¹⁵See, Ma Ping, "The Strategic Thinking of Active Defence and China's Military Strategic Principle," *International Strategic Studies*, no. 1 (March 1994): 3-4.

China has been more convinced that the third type of warfare seems to be the scenario most likely to be faced in the future.¹⁶

Therefore, studies in the field of defence began to be directed towards developing a strategy of facing "regional and limited wars" (*youxian zhubu zhanzheng*). In this case, it appears that the Chinese strategists have begun to develop a national defence strategy based on a more comprehensive "active defence". They began to realise the significance of maritime defence to safeguard national security. Consequently, in this "active defence" doctrine, the development of defence strategy has been more focussed on what the Chinese call the "green water defence strategy" (*jijide jinhai fangyu zhanlie*).¹⁷

The operationalisation of the "green water defence strategy" can be seen from efforts made by the Chinese strategists to restructure the armed forces. For example, in a seminar organised by the Central Military Commission of the Chinese Communist Party in October 1988, China's Deputy Commander in Chief and Naval Chief of Staff General Zhang Xushan affirmed that China needed to restructure the imbalance between ground, naval and air forces. Another speaker, Li Ganjuan suggested that the order of military priorities should be changed from ground, naval, and air forces to naval, air, and ground forces. Such a change, according to General Zhang and Li would be beneficial to developing Rapid Response Capability, which would effectively function in facing limited regional wars or low-intensity con-

flicts.¹⁸

The outbreak of the Gulf War in 1991 added a new dimension in the thinking on China's "active defence" doctrine. The thinking that priority should be given to the development of navy and air force was beginning to be widely accepted by China's armed forces' leaders. They began to encourage the military to carry out the so-called "qualitative construction of the military", that is, efforts to increase military operation capabilities combined with sophisticated weapon technology. In December 1991, this "qualitative construction of the military" was made the official doctrine of China's armed forces in a meeting of the Central Military Commission of the CCP. As pointed out by a Chinese military strategist, General Zhao Nanqi, "qualitative military modernisation will be the guiding philosophy for China's military build-up in 1992 and thereafter".¹⁹

Such a doctrine clearly indicates that there is both continuity and change in China's strategic thinking. On the one hand, the "active defence" doctrine still shows the importance of frontier defence for China. However, the frontier defence has now been expanded in view of the importance of maritime defence. On the other hand, the "active defence" doctrine which stresses the importance of naval build-up is also supported by the "qualitative construction of the military" doctrine, which is none other than stressing on military related high technological development. This clearly shows the growing China's interest in developing a "forward projection" capability.

¹⁶Shulong Chu, "The PRC Girds," 186-187.

¹⁷You Xu and You Ji, "In Search of Blue Water," 3.

¹⁸Shulong Chu, "The PRC Girds," 187-188.

¹⁹Ibid., 190.

In brief, it can be said that China's national defence doctrine today is based on the "active defence" and "qualitative construction of the military" doctrines. Both doctrines have become the foundation of military build-up based on the development of the navy and enhanced quality of weaponry technology. Those two doctrines also stress the importance of peripheral defence strategy and forward projection, and the frontier defence remains the basis of China's conventional defence strategy. This strategy is then to become a strategy to anticipate and face the possibility of "limited regional wars" around China's territory. China's military build-up today is based on such a strategy, which will be discussed in the next section.

China's Military Build-Up: Capabilities and Obstacles

Strategic thinking on defence doctrines of a nation usually contains principles that provide guidance for the development of the actual military capability of that nation. In this regard developments in China's military strength also follow the development in strategic thinking and its doctrines. As mentioned earlier, the development of China's actual military power is an implementation of the "active defence" and "qualitative construction of the military" doctrines, which have become the foundation of the peripheral defence strategy and forward projection in order to anticipate "limited regional wars".

The implementation of such a strategy is evident from China's great interest in the establishment of tactical battle units, development of naval power, and the development

of the quality and technology of weaponry through intensive R&D programs. The following discussion will address the development of China's military power particularly in the three areas mentioned above, and the obstacles that are still faced by the country.

China's increasing concern with low-intensity conflicts has led the country to developing mobile Rapid Reaction Units (RRU) or *kuaisu budui* to secure its maritime interests and territorial and off-shore claims. Since the late 1980s, the PLA has started to learn from the experience of advanced countries such as the US, France, and Britain in developing their RRU. China's interest in the RRU was due to the efficiency of such units in facing battles against potential aggressors and they may also be used to deal with terrorism and internal turmoils.²⁰

The development of the RRU constitute a part of the PLA's bigger plan in developing the overall Maritime Capability of China. According to You Xu and You Ji,²¹ the PLA's plan consists of three stages. At the first stage, which is expected to be completed by the end of this century, the emphasis is placed on enhancing the quality of equipments which will rapidly increase the Navy's combat capability. Its objective is to deter regional threats and to fight battles quickly and at low risk, without being entangled in protracted battles. At the final stage, the Chinese Navy is expected to possess: (1) a relatively large radius of action, reaching to the first island chain of the North and South China Seas; a strong rapid response capability; (3) effective amphibious power; (4) independent air protection and attack forces; and (5) credible second-strike

²⁰Shambaugh, "Growing Strong," 53.

²¹You Xu and You Ji, *In Search of Blue Water*, 6-8.

nuclear deterrent capability.²²

At the second stage, namely during the first two decades of the 21st century, it is expected that the projection capability of the Chinese Navy would not only be confined to the West Pacific Region but would also be able to explore oceans around the world. At that time the task force units developed during the first stage would be accompanied by aircraft carriers and would form a three-dimensional system of attack and defence equipments. The key of the second stage is the development of high-tech equipments. Besides, new nuclear-powered submarines and new generation surface combatants would also join the service.

The third stage would be the development of its power after 2020, when China would developed itself into a reliable marine power at a global scale. By and large, according to Deputy Commander of Dalian Naval Vessels Academy Lin Zhiye, the Chinese Navy would have build up the capability as follows: (1) capability to maintain surveillance, occupation and protection of the islands scattered surrounding China; (2) to protect sea transportation lines; (3) coastal defence; and (4) deterrence. With these four capabilities, China would have more leeway in the operationalisation of its "forward projection" strategy.

Other operationalisation of China's new defence policy is evident from the growing interest in the R&D program. This is a concrete follow-up of the "qualitative construction of the military" doctrine. Qualitatively,

China's military power has improved significantly. This R&D program is expected to increasingly accelerate the modernisation of the army, navy and air force, which are equipped with nuclear weapons and with increased production of weapons, more advanced communication and detection facilities. The amount of funds allocated by the Chinese government for the R&D program is difficult to estimate precisely. However, according to an estimate by the West, China allocated about 8 per cent of its military budget for R&D, or approximately 8 billion yuan of the 40 billion yuan military budget of 1987. Other estimates mentioned that for 1993 China had allocated around US\$5 billion for R&D, but this fund was derived from sources outside the official military budget.²³

The R&D funds for the military deriving from the official budget are relatively small. However, the PLA has its own mechanism in financing the modernisation process of its armed forces. The PLA had to rely on its arms sale abroad and civilian goods produced by military-backed companies. The sale of arms and production of civilian goods have become another important component of the efforts to develop China's military power presently.

According to an estimate, although tending to decline, the value of China's arms sale abroad is still one of China's income sources, and China itself is a major arms exporter. China's arms sale declined from US\$5.5 billion in 1987 to US\$2.6 billion in 1990, and amounted only to US\$300 million in 1991. The end of the Iran-Iraq War, the rise of Russia as Iran's major supplier of

²²Quoted in Shigeo Hiramatsu, "China's Naval Advance: Objectives and Capability," *Japan Review of International Affairs* 8, no. 2 (Spring, 1994): 121.

²³Shambaugh, *Growing Strong*, 54.

arms, and the absence of arms market in Iraq as the aftermath of the Gulf War, are factors accounting for the decline of China's arms sale. In this case, Thailand and Myanmar are still important markets for the Chinese arms sale.²⁴

Aside from arms sale, civilian goods produced by military-backed companies are a significant contribution to the total of PLA's revenues. This has been carried out through the military conversion program (*junzhuanmin*) based on the principle of "combining military production with civilian production" (*junminjiehe*), meaning "to link organically the defence building with national economic development and to use military industrial technologies for the development of the cause of peace and for the benefit of mankind."²⁵ The result of these endeavours is quite impressive. For example, in 1990-1991 it was officially acknowledged that 65 per cent of military industrial production were civilian products. Even in some sector like that of electronics, the share of civilian products produced by the military almost reached 100 per cent.²⁶

The effort in developing military power as described above was not without a number of obstacles. In its effort to build the RRU (Rapid Reaction Units), for example, China still faces obstacles in developing infrastructures such as adequate transporta-

tion and weaponry systems needed by the RRU. Although the PLA has started training its RRU, the PLA has not as yet been able to deploy them in tactical operations, if limited conflicts were to occur.

In developing the PLA's Navy China has to face substantial financial constraints, which have to be overcome before the country will be able to come to the fore as a truly global maritime power. Besides, from the perspective of military equipment, the Navy still falls short of adequate capability. All divisions of the Navy -- submarine, surface combatants, and land and marine based defence systems -- would take a long time before acquiring a reliable capability of facing the enemy in a big operation.

As is the case in other countries, China's military R&D development scheme has to face financial problems, and the decline of demand for Chinese produced weapons is one of the sources of problem faced by the PLA. Aside from that, China also faces corruption problems caused by those involved in the arms sale. However, in the future the military conversion program seems to become an important component in the effort to look for additional income to finance the development and modernisation of the Chinese Armed Forces' capability.

Aside from the obstacles faced by the PLA, there is no doubt that the Chinese military build-up, particularly the Navy, will be certainly enhanced. Philosophical, strategic, tactical and operational adjustments taking place in its defence policy, reveal the seriousness of the country's leaders and strategists to make China a truly global power. Whether such a status may pose a threat or become an asset for the Asia Pacific region remains to be seen by the countries in this region.

²⁴Andrew Mack, *Arms Proliferation in the Asia-Pacific: Causes and Prospects for Control*, Working Paper 1992/10 (Canberra: RSPS, December 1992), 7.

²⁵Jin Zhude and Chai Benliang, "China's Experience: A Case Study," quoted in Mel Gurtov, "Swords into Market Shares: China's Conversion of Military Industry to Civilian Production," *China Quarterly* 134 (June 1993): 215.

²⁶*Ibid.*, 214.

This theme will be discussed in the next section.

China and the Asia Pacific Security: Threat, Asset or Challenge?

What is the implication of the change in China's defence policy and its military build-up for the security in Southeast Asia in particular and the Asia Pacific in general? This seems to be the main question posed by almost all countries of the Asia Pacific which is always taken up in any discussion on the future of this region. The heart of the matter is, will a strong and modern China threaten security in the Asia Pacific? The answers and views with regard to such a question are generally polarised into two extremes.

The first view believes that China will certainly become a threat to the security of the region.²⁷ This view is based on the so-called power-hegemony linkage theory. According to this theory, an enhanced Chinese economic power would be followed by the increase of military power. Hence, it is most likely that China would use its military power to impose its interests and aims on other countries. Proponents of this theory frequently give as example British foreign policy during the Pax-Britanica era, Japan in the early 20th century, the USA during the Pax-Americana era, to substantiate their arguments.

Based on this theory, some analysts hold

²⁷For a clear view regarding China as a threat, for example, see Denny Roy, "Consequences of China's Economic Growth for Asia-Pacific Security," *Security Dialogue* 24, no. 2 (June 1993), and "Hegemony on the Horizon?: China's Threat to East Asian Security," *International Security* 19, no. 1 (Summer 1994): 149-168.

that a strong China would follow such "natural course". To meet its increasingly rising economic needs, China will have to play a hegemonic role, and would accordingly become a threat to the security of the Asia Pacific region. Consequently, regional countries of have to review their long-term interests in facing China. For example, Denny Roy held that an increase of trade flow between East Asian countries and China may bring about serious implications to them.²⁸

The second view believes that a strong China would exactly become an asset for the creation of a peaceful environment in this region. This view is based on the interdependence theory of global economic system. According to this theory, the increase of China's involvement in the dynamics of regional and global economy would enhance its integration into the network of global economic interdependence. Hence, advocates of this theory hold that the stronger China's economic ties with the outside world, the bigger would be the cost to bear by China, should it adopt an aggressive foreign policy. Besides, the view holding that China is not a threat also expect that the improvement of China's economy would make the country increasingly more democratic, and a democratic country would undoubtedly conduct its foreign policy for peaceful purposes.²⁹

Being quite argumentative, both views contain substantial flaws in depicting the "China threat" scenario in the Asia Pacific. The first view places too much emphasis on the military aspect, whereas the latter ap-

²⁸Ibid., 182-183.

²⁹Rudolf Rummel, "Libertarianism and International Violence," *Journal of Conflict Resolution* 27, no. 1 (1983): 28.

pears to be based on sheer economic and ideological assumptions. Hence, it is not surprising that both views confront "threat" and "asset" as black and white. The two views do not consider the "grey area" between the two extreme black-white poles. And the "grey area" is an important scenario to be reckoned with, being the consequence of the strong linkage between economic and military aspects in assessing a country's behaviour.

The third scenario does not pronounce China as "threat" or "asset". At present China can still be depicted as an asset for the Asia Pacific region, and has not as yet become a threat, but in the long-run it has the potential to develop towards that direction. In other words, it seems that China may be rightly regarded as a challenge to the countries in this region. The view depicting China as a "challenge" has different policy implications compared with the two other views. If China is regarded as a threat, regional countries would be forced to form relationship which is directed against China. The second view tends to bring about a solution which disregards the principle of the worst possible case in establishing strategic relations with a major power such as China. The Asia Pacific countries may run the risk of being trapped in a security arrangement model dictated by China. While the third scenario would enable regional countries to establish a suitable regional framework by working with China.

Thus, is the perception that considers China as a "threat" in accordance with reality? The reality of China's conduct today seems to show some contradiction, and it is this contradiction that supports the argument that China may be aptly placed in the "grey area". China's policy is currently

laden with both positive and disruptive aspects. At the global level, China shows that it will abide by the international norms set to be obeyed by the international society. Beijing has shown its willingness to comply with the rules of the game in the Missile Technology Control Regime (MCTR). In 1992 China also signed the Non-Proliferation Treaty (NPT).

At the regional level, China's policy vis-a-vis the Asia Pacific region has also shown important changes. In Southeast Asia, China has normalised and established diplomatic relations with Indonesia and Singapore. Beijing has also played an important role in ending the Cambodian conflict. Its relations with Vietnam has been stepped up since mid-1991. Beijing has also taken positive steps to establish relations with Laos, Russia and India.³⁰ In East Asia, while maintaining good relations with North Korea, China has established diplomatic relations with South Korea, and has played an important role in handling the North Korean nuclear problem. Its relationship with Japan is also relatively stable, though the dispute over the Senkaku/Diayutai islands has not as yet been solved. They are all in line with the good neighbourly relations or *Zhaobian Zhengzi* as Beijing puts it.

However, aside from such positive elements, China's conduct in the Asia Pacific also shows signs that give rise to concerns among the countries in this region. As discussed earlier, China's military build-up program is one of the main sources of appre-

³⁰Qian Jiadong, "Prospect of Security Frameworks in the Asia Pacific Region," paper presented at *The Sixth International Security Forum*, a seminar organised by the Department of Foreign Affairs of Japan, Tokyo, 23-25 February 1993, 7.

hension of Asian countries, particularly ASEAN. Besides, China's territorial claims in the South China Sea and the country's arms sale activities have also aroused suspicions. All of these may strengthen ASEAN's suspicion of Beijing's real intentions in this region. In this case, the apprehension about China's coming to the fore with its "blue water" capability becomes ASEAN's principal challenge. In other words, aside from promising conditions in the economic field, one of the aspects that gives rise to concerns among the Asia Pacific countries, especially ASEAN is the issue concerning China's military build-up.

Accordingly, ASEAN needs to urge China to be more open to the idea of military transparency in the Asia Pacific. This step is important in the framework of developing confidence and security building measures (CSBMs) in the Asia Pacific. The exchange of the Defence White Paper, for example, is a concrete step to that end. Indonesia, being a prominent country in Southeast Asia, may begin and take the initiative to realise that idea. Should it materialised, it can be expected that mutual confidence will be easier to build. Mutually trusting each other is the key factor in responding to the "China Challenge".

Selective Peacekeeping: Toward Effective Intervention

A.K.P. Mochtan

Introduction

FOR a brief moment, the United Nations seemed set to take up the central stage in world affairs. Freed from ideological strait-jacket that has for too long restrained it from making meaningful contributions, the UN at long last showed a spark of life in what supposedly be its major area of engagement, if not expertise: the maintenance of international peace and security. With the *Gulf War* as the big bang, the fanfare had continued at an amazingly high speed primarily through the despatch of numerous peacekeeping forces to various hot-spots around the globe. As a result, renaissance of the UN quickly became the mood of the day and, for once, seemingly irreversible.

The jubilant mood did not last long. Contrary to burgeoning expectation, the UN

simply proved incapable to make use of the opportune moment and to improve its performance and standing. Rarely, if ever, was the newly found trust matched by concrete, decently satisfying results. Instead of coming up with peaceful solutions, some of the UN's involvement in fact served only to further complicate and worsen prevailing crises, as in the case of Somalia.

Moreover, in spite of repeated calls and mounting expectations for reform, the UN persisted to operate in its old, redundant "too-little and too-late" approach. Hence, the whole world has to bear with prolonged violence in the former Yugoslavia and grotesque mass-massacre in Rwanda.

Beyond these, there is a disturbing trend toward high-handedness, if not arrogance and abuse of power. When the UN eventually did manage to initiate some actions, there seems to be greater permissiveness, indeed haste, toward employing force without sufficiently considering other, less forceful options. Predictably, rather than generating sympathy, all these have led to more disil-

*Paper submitted to the International Working Group on "The United Nations in Its Second Half-Century", Yale University, August 1994.

lusionment.

This paper seeks to examine the controversies evolving around the current transition of contemporary peacekeeping. From here, it will attempt to identify the future direction toward which it may be heading to and elucidate some of the "workable" options.

Contemporary Peacekeeping: Expectation and Reality

The "forced development of peacekeeping",¹ in quantitative as well as qualitative terms, is undeniably dramatic. The sudden proliferation of publications dedicated to discussing this subject alone amply illustrates the dynamic of this phenomenon. Nonetheless, throughout all these, there is at least a broad consensus on the fact that the new peacekeeping operations differ significantly from the original, classical, peacekeeping: i.e. that the current, "second-generation peacekeeping", are more "muscular" and encompasses a much broader activity.²

¹As observed by former UN Under-Secretary-General Marrack Goulding in his Cyril Foster Lecture, Oxford University, 4 March 1993. Others tend to label it as "evolution". Considering the unexpected, short time span within which all the developments took place, the term he introduced seems more appropriate. The edited text of Goulding's lecture appears as "The Evolution of United Nations Peacekeeping", *International Affairs* 69, 1993.

²There is now a substantially large collection of articles, reports and books on this subject. Some insightful analyses that offer conceptual clarification include, John MacKinlay and Jarat Chopra, *A Draft Concept of Second Generation Multinational Operations* (Providence: Brown University's Thomas J. Watson Institute for International Studies, March 1993); Mats R. Berdal "Whither UN Peacekeeping?", *Adelphi Paper*

Apart from this, however, debates on the effectiveness, even appropriateness, of second-generation peacekeeping operations as a viable peace strategy remain inconclusive. One of the most contentious issues is the level of force used toward attainment of an operation's objectives. The UN sanctioned *Dessert Storm* has set a precedent for peacekeeping operations to use provisions stipulated in Chapter VII of the UN Charter, including enforcement by military force. With this, the cardinal principle of peacekeeping no longer rests on "Chapter VI and Half", or peaceful resolutions as it was originally conceived, but shifting to hinge on coercive actions.

As *collective deterrence*, this may not be totally unacceptable, especially in cases where an aggressor is well identified and its leadership and armies are blatantly defying international laws and agreements. The question is: what guarantee do we have for this essentially *preventive measure* not to be manipulated and abused into a highly damaging punitive action by a certain country or group of powerful countries, especially when we all know that the UN Security Council is very much prone to domination and arm-twisting by the big powers?

The one "perfect" scenario we have so far had not been particularly convincing.³

281 (International Institute for Strategic Studies, London: October 1993), especially 6-25; Cathy Downes, "Challenges for Smaller Nations in the New Era of UN and Multinational Operations", in Hugh Smith (ed.), *Peacekeeping: Challenges for the Future*, Australian Defence Force Academy, Canberra, 1993, 13-32; and Donald C.F. Daniel & Bradd C. Hayes (eds.), *Beyond Traditional Peacekeeping* (London: Macmillan, forthcoming 1995).

³As in the case of Iraq's invasion to Kuwait, August 1991. The successful intervention by the US-led Coalition Forces may be a victory for the western, developed

Of recent, we have also seen how the US Rangers mis-used the UN's legitimacy for its own blind obsession to hunt down a Somali's war-lord, and killing Somali's women and children along the processes. Now, what is there to prevent a recurrence of this type of "big-power adventurism" when the future Security Council will essentially be the same as the one we are having today?

Other contentious issue is the principle for intervention itself. Previously, as it had been strictly observed and well-practised in the past, UN peacekeeping forces were deployed to mitigate conflict between countries, by interjecting impartial peacekeepers along the warring path, *after obtaining the full consent of the conflicting parties*. Now, under the pretext of humanitarian assistance, some UN peacekeepers have been despatched into the territory of a perceivably "failed state", without the consent of the concerned country, and *even when there is no clear and immediate threat to international peace and security*.

"Goodwill", namely a well-meant intention to help general population of the troubled country to overcome basic humanitarian problems such as the absence of food and/or deterioration of health facilities and services, has typically been the main reason in necessitating this type of intervention. The urgency and graveness of the situation, most effectively captured and magnified by the globally influential "CNN factor", has in

countries, especially in terms of collective security measure. But there were strong resentments from the developing countries against the perceivedly excessive use of force. For analyses on the subject, see Richard N. Gardner & Joseph P. Lorenz, *Post-Gulf War Challenges to the UN Collective Security System: Two Views on the Issue of Collective Security*, United States Institute of Peace, Special Middle East Program in Peacemaking and Conflict Resolution, Washington D.C., June 1992.

turn compelled most humanitarian operations to become engrossed with its own pre-occupation of ensuring the immediate and safe delivery of food and medical supplies, and by so doing, disregard other consideration such as the sensitive and fundamentally important issues of the recipient country's own wishes or pride.

At stake is the target-country's sovereignty. Domestic turbulence rarely amounts to immediate threat to international peace and security. Despite ample normative justifications favouring international intervention in cases of acute situation, humanitarian problems essentially remain a domestic affair that falls under the full jurisdiction of a sovereign state. Interference in this matter, including and especially by the UN, would be a clear betrayal of Article 2 (7) of its own Charter. The issue becomes especially emotional when the intervening party fails to solicit consent of the country and its population, or when it unilaterally defines what constitute humanitarian problems.⁴

Apart from the above fundamental objections, dissatisfactions also abound over the UN's other general undertakings and principles related to peacekeeping. One of the most commonly raised is over the UN's inability to come up with timely response. The UN is seen perpetually trapped in its foot-dragging habit when swift and decisive action is clearly the option to be called for. Many believes that the recent horror in Rwanda or escalation of conflict in Yemen could have been prevented had only the UN been able, in fact simply willing, to respond

⁴Some of the potentially contentious issues at least from small countries' perspective include imposition of democratisation, human rights standards and environmental safeguards. In this context, the case of Haiti sets as a controversial precedent.

more decisively. Expectedly, of course, the UN did not do so.

Beyond this, the UN is widely accused of being "choosy in its intervention. There are instances that suggest the UN can actually react expeditiously, as in the case of Iraq's invasion to Kuwait. Yet, in other instances, the UN has appeared reluctant, even heedless. Such discrepancy, the seemingly random decision-making and unpredictable judgment, cannot but invite further criticism and lead to another allegation, namely for the UN to serving the interests of few, and neglecting others.

Most intriguing of all is the seemingly lack of determination to promote and adhere to preventive actions/measures. Notwithstanding the *Agenda for Peace's* emphasis to pre-empting potentially explosive issues from escalating, armed-conflicts of intolerable scale and intensity were fastly unfolding practically right in the very front of the UN's eyes and presence. UNAMIR, for example, was actually well in place. Yet, its presence totally failed to deter genocide in Rwanda.

Overall, the UN's performance falls short of expectation. With a few exception, notably Namibia's UNTAG and Cambodia's UNTAC, other UN peacekeeping operations are shallow and confusing, insignificant at best. The exponential increase in the numbers of operations launched and personnel involved, the huge expenses spent, and the ambitious scope mandated, did not produce much, if any at all, in terms of improving the organisation's capability in maintaining international peace and security. In short, the UN (as it has always been in the past) is again suffering serious image and credibility crises. This time, however, the problem may be worse since the UN's sup-

posedly major impediment, i.e. ideological confrontation between superpowers, had actually been removed and forever buried.

Understanding the UN's Failure

For clarification, the above judgment -- harsh as it may be -- is not meant to belittle or simply dismiss the importance of the organisation. Our current transition is not an easy, nor peaceful one. To call upon the UN to create a new world order, at the same time checking global disorder, is truly a tall order. Hence, it is bound to stumble and make mistakes. What is important here is to recognise that *it is sincerely trying*, and not just be coward or indecisive about it.

The Changing Context: Establishing Peace in a Hostile Environment

One of the biggest challenges the UN is confronting is the changing context within which it is expected to make its contribution. Peacekeeping operations is now more complex, demanding and dangerous. *First*, this is due to the dramatic change in the nature of conflict itself, namely from inter-state confrontation to internal civil wars between a country's own factions that are separated by political, religious or ethnic divisions. Such internal war, generally referred to as "ethnic conflict", is creating a serious problem for the UN, especially in trying to identify the legitimate "authority" that may be approached for the purpose of offering good offices or soliciting consent. Complexity of the problem becomes much higher when the warring factions is substantially large, and armed, as in the case of Cambodia or Somalia.

Second, there is a disturbing trend on the ferocity of violence involved. Despite the fact that most of the conflict occurring today are limitedly between the same peoples or nationality only, they are now of extreme violence with horrifying intensity and scale, even when no mass-destructive weapons are being used. The atrocities in Cambodia during Pol Pot's *Year of Zero* is certainly not the last self-annihilation in contemporary history. The same brutality is being repeated in Rwanda, and former Yugoslavia, without any clear indication when and how they may be stopped.

Third and lastly, because of fierce, in fact fanatical, attachment to their own self interests, parties to internal conflict are usually hardened stubborn who tend to reject and shun out outside help, including mediation from the UN. All these, in turn, present an entirely different challenge and problems to the UN. To make matters worse, most of these problems are surging to the fore practically simultaneously. Hence, more often than not, the UN has appeared unprepared, even totally disorganised.

Politics of Multilateralism: The UN as a Victim of Real-Politik

Beyond a changed environment, much of the UN's failure may be attributed to *real politik* imposed by member states themselves. Admittedly, the UN is not short of organisational incapacities. The notoriety of its excessive bureaucracy is not unwell known. In fact, it is widely perceived that some of its problems are already too chronically entrenched within the system to the extent that even the most rigorous attempt to revamp the organisation is doomed to fail. Yet, the UN could have actually survived all

these and be able to deliver much of its promises if only it were equipped to do and be so. The biggest problem besetting the UN does not necessarily stem from poor management, but rests mainly with the attitude of member states themselves. Organisational incapability is only a minor symptom as compared to member states' unwillingness to lend the UN with the appropriate means: politically, materially and financially.

The political constraint is particularly discouraging. The Cold War may be dead and forgotten, but the UN continues to be the main arena for promoting narrow national and/or small group interests. Short of ideological contention, North-South antagonism, the permanent tension between the five powerful permanent members and the powerless majority, remain very much alive.

With the growing rapprochement between Russia and the US, and China's increasingly distancing position from the Asia-Africa league, rivalry between the two opposing poles can be expected to further heat up. This is of course not to suggest of an irreconcilable situation. A compromise can and will certainly be found somewhere down the line. But, for peacekeeping, this is precisely where the most dangerous part lies. Political compromise often translates to vague mandates that is neither comprehensible nor sufficient for field operational purposes. Hence, a sure recipe for failure.

Here, the permanent members of the Security Council have much to offer. The position and attitude of the United States, in particular, is of critical importance. In the first place, the US will have to admit that it does not have sufficient experience in UN-led and UN-designed peacekeeping opera-

tions. Its participation has only begun recently, and their record, as in Somalia, is very poor indeed.

First, the US military doctrine and strategy, for example, command and control arrangement, deterrence by massive fire-power and overwhelming force-projection capability,⁵ is simply incompatible, in fact totally unsuitable, for UN peacekeeping operations. The aggressive, uncompromising attitude of US military personnel is unquestionably a negative factor that will easily backfire and jeopardise the entire mission. It was fortunate that no US battalion, except for a few un-armed military observers, were made as part of UNTAC military contingent. Otherwise, the Khmer Rouge would have found a perfect target who would react just as they were hoping for with only the slightest provocation.

Second, the US will have to be more sensitive over its own changing political stance and the expectation or perception of other countries. The US is undeniably still a major power and an influential state. But it is no longer the mightiest superpower who can dictate standards and agenda for the rest of the world.

It is high for the US redefine its role and be an equal and constructive team player, not just with its own political and military allies only, but truly and genuinely with the rest of the world. So far, its veto power continues to sustain the US' influence and unilateralism at the UN. Stripped from this privilege, there may be better hope that its behaviour and attitude, including manipula-

tive and arm-twisting actions, could be much reduced.

Third, it is absolutely imperative that the US pays its due to the UN, in full and immediately. It is indeed regretful that some member states are unashamedly disreputing themselves by owing so much money to an international body, and hence the international community. There should be legal provisions and arrangements to penalise these countries, sanctioning them if necessary. The US total debt to the UN already tops \$1 billion, and the amount is mounting.⁶ If such hopeless situation remain unchanged in the near future, the proposal to move the UN headquarters out of the US may not be a bad option at all.

Finally, there is wide recognition that the US' logistics capabilities and expertise could critically contribute to UN peacekeeping missions. The US capacity in this area is simply unmatched. Hence, this is perhaps the one area where the US' contribution and participation can be most helpful and is most expected. In this regard, the US' recently-launched PDD 25 could have been more useful if it includes explicit arrangements for this purpose.⁷ Unfortunately, the document stands more as a reflection of "a highly cautious and deliberate frame of mind",⁸ that amounts to an "isolationism",⁹ rather

⁶As reported in *Economist*, 25 June 1994.

⁷Presidential Decision Directive 25: "The Clinton's Administration's Policy on Reforming Multilateral Peace Operations", signed on 3 May 1994. This document outlines criteria for US' support and involvement in UN peacekeeping missions.

⁸Donald C.F. Daniel, *US Perspectives on Peacekeeping: Putting PDD 25 in Context* (Newport, Rhode Island: US Naval War College, 1994).

⁹*Economist*, 25 June 1994. "Not a Soldier, Not a Cent" is the caricature of America's current position.

⁵See Richard L. Kugler, *US Military Strategy and Force Posture for the 21st Century: Capabilities & Requirements* (Santa Monica: National Defense Research Institute/RAND, 1994).

than an assertive multinationalism as campaigned earlier.

There is at least more decisiveness and sense of responsibility by the French. It was France alone who pledged a commitment to make available and to despatch 2,000 troops within 48 hours' notice for UN peacekeeping purposes during the first and historic Summit of the permanent members in January 1992. Recently, it decided to go solo to Rwanda after the UN Secretary General failed to persuade member states to lend him the necessary troops.

"Francophone solidarity" might have been the obvious factor in facilitating the French involvement in Africa, perhaps even Cambodia. Still, as long it is exercised with sensitivity and prudence, and not promoting ulterior motives or any other hidden agenda, it may help to achieve something decent.

The rest and majority of the developing countries themselves will have to take up their respective constructive roles. Their primary interest in economic and social well being, equality, non-intervention, nation-building and the like, is well noted. But, all these should be put in the properly balanced perspective and should never be used as a leverage in the drafting of a resolution. The developing countries should learn and help the UN to be a credible organisation, not a mere paper factory or debating society.

There are limits to the effectiveness of diplomatic negotiations and preventive diplomacy. The passing around of papers and words in search of a compromise will hardly solve anything, when strong forceful actions is clearly the only viable solution available. The developing countries must not stale or deny this. In fact, they themselves will have to take part, physically as well as

financially, without delay and pretensions. Only with such attitude may the political constraint surrounding the UN be reduced.

Slow Response, Inconsistencies = In-action?

During the first 43 years of the UN's existence, only thirteen peacekeeping operations were launched. In the past five years alone, nineteen new operations were initiated. Unfortunately, aggregate number is not the issue, but *timeliness* is. As the UN is basically reactive, and not pro-active, this will most likely continue to be a sore point.

The member states alone are responsible for this situation, they should be held accountable for their own actions. This is especially true with regard to the decision making process they themselves have created. Originally conceived as a temporary holding action, there is no hard and fast rules governing peacekeeping operations. Hence, approval for a new operation has always to be negotiated, based on ad hoc and painfully long procedures. For illustration, a typical negotiation process would involve the following steps:¹⁰

- *Step 1:* the issue is brought to the attention of the Security Council, either by a Council member, the Secretary General, or a group of member states who may or may not be a member of a regional grouping.
- *Step 2:* involves the Security Council requesting the Secretary General to review the situation and make recommendations

¹⁰Based on lecture notes of Col. B. Osborn's presentation: "Negotiating A UN Peacekeeping Operation", International Peacekeeping Seminar, Australian Defence Forces-Join Warfare Centre's Peacekeeping Centre, Williamstown, NSW, February-March 1994.

concerning future UN involvement in the situation.

- *Step 3:* the Secretary General undertakes various arrangements with the parties involved for the establishment of a UN peacekeeping operation. This could involve the appointment of a special UN representative or representatives from the Secretariat led by the Department of Political Affairs.
- *Step 4:* the Secretary General submit a formal report to the Security Council re size, scope and estimated cost of the operation.
- *Step 5:* the Security Council convenes a meeting to mandate the operation.
- *Step 6:* preparation of the budgeting of the operation. Establishment of the peacekeeping force cannot take place unless the budget is approved.
- *Step 7:* once the operation is approved by the Security Council, the Secretary General is authorised to formally approach member states and solicit their contributions to the force.
- *Step 8:* the Department of Administration and Management to issue assessment notices to each member state to meet the cost of the operation.

It takes from weeks to years to complete the above steps, and the same procedures will have to be repeated for all other peacekeeping operations. The difference is that the UN is now being presented with much higher number of crises than ever before, and all within a very short time span from one to another. On its side, the UN is already making the appropriate adjustments, for example, through the restructuring of the Department of Political Affairs and Peacekeeping Operations. But, unless the members states

themselves are willing to improve and expedite the process, timely action remains purely a wishful thinking.

Of recent, the UN seems to be facing a “shortage” of troops. Member states are becoming less and less forthcoming to commit their troops. A proposal to create a “Stand-by Force” is already sent back to the shelf because of member states’ cold reception. Now, the same half-heartedness is being applied to “normal and routine” operations. A number of Third World countries has actually offered to help, but they lack even the basic equipments. With all these, it is indeed difficult for the UN to be able to act swiftly as many would have expected it to be.

The dizzying speed within which new issues are surging to the fore presents another problem, namely that of consistencies or the lack of it. Again, the UN is put on the firing line and to take the blame for this whereas it is the member states themselves who are actually being caught off guard. Many countries are totally unprepared to debate on and deal with some of the world’s new problems, for example, the rise of religious fundamentalisms, ultra ethno-centrism, or destruction of the environment. Rather than admitting their own shortcomings, the UN is made as a convenient scapegoat.

Establishing Guiding Principles: Lessons from the Field

The UN’s short-comings is not a reason to turn away in despair. At the very least, the wealth of experience and expertise it has accumulated over the years can be useful as guidance for our future endeavours. In addition, it is clear that the UN is not duplicative.

There is no other body that has the same clout and legitimacy as the UN has. Instead of pronouncing its life at an end, we should therefore concentrate on taking stock of the UN's successes and charting a new path.¹¹

Of the more successful operations, the UN's experience in managing UNTAC in Cambodia can be of some reference. Some of the key points leading to UNTAC success can be summarised as follows:

Strict Adherence to Neutrality and Impartiality. Of the four warring factions involved, one with the most disciplined and well trained army, the Democratic Kampuchea (=DK, formerly the Khmer Rouge), consistently violated the Paris Agreement. Not only did it reject Phase II of the UNTAC's plan (Dis-armament and Cantonment) and terrorizing Cambodian citizens,¹² it also directly attacked UN facilities and killed UN peacekeepers.¹³ Yet, UNTAC military component refrained from taking any coercive retaliatory actions. Politically, the DK also continued to be treated as a legitimate faction, even when it deliberately refused to register as a political party, as re-

quired by the Electoral Law. By so doing, UNTAC was able to preserve its neutral and impartial stance.

Concentrating on Main, Not Supporting Objective. The failure of Phase II of UNTAC's operation plan could have brought serious repercussions to the next plans and other sequences of the whole mission. However, instead of being upset and insisted on the DK's compliance, UNTAC leaders decided to concentrate and work on the ultimate objective of the mission, i.e. the holding of a general election. This proved to be critical to the overall success of the mission.

Support and Acceptance of the General Population. UNTAC personnel were deployed throughout the country and stayed even at the most remote districts. Their active interaction with the general population were critical in building good relations. The Cambodian people themselves, in turn, became highly committed in helping the success of the elections. At the end, despite intimidations, almost 90 per cent of the registered voters went to the polling stations and cast their votes.

Invest on Effective Public Information Campaign. Objective of the mission, i.e. the holding of a general election, and prevailing situation in the field necessitated UNTAC to embark on massive information campaign. A full unit was dedicated for this purpose and it undertook extensive country-wide information and education programmes, via television, radio, and printed media. As a result, the population were well informed of the purpose of the mission and, more importantly, understood the critical role they themselves would be playing.

Solicit Contribution of Dedicated UN

¹¹Unfortunately, the UN's record of successes is spotty, limited at most. So far, on-going operations in the former Yugoslavia, Somalia and Rwanda are not producing encouraging results. Still, they are not totally useless for they may provide clues on factors and principles that do not work and thus to be avoided in the future.

¹²Mostly of Vietnamese origin.

¹³One of the incidents involved the attack and killing of Bulgarian soldiers stationed in Kompong Speu Province (UNTAC's Military Sector IX). There were several attacks to UNTAC facilities in this Province, all to the District offices. Six Bulgarian soldiers were killed, as well as one Civilian Police from the Philippines. Of the total 6 District offices, one was seriously damaged and had to be closed down.

Volunteers. The most critical task, i.e. the preparation and organisation of elections at the District and village levels, was entrusted largely to UN Volunteers, under the supervision of senior staffs of UNTAC's Electoral component. The UNVs proved to be highly competent and dedicated in carrying out their assignments, despite the harsh living condition and low salary.

Follow-Up Actions, Post-Conflict Involvement Provides Assurance. Cambodia is fortunate to have the international community's continued commitment and assistance through ICORC. Prior to this, UNTAC was given extended mandate to remain six months beyond its original date of withdrawal. All these have given distinctly positive psychological effect to ordinary Cambodians. UNTAC continued presence was useful to re-assure safety and security to the people, at the same time promoted confidence and conducive environment for economic activities.

The above principles leading to the success of UNTAC mission may not be universally applicable or transferable to other UN operations in different parts of the world. Each mission has its own unique problems, hence approaches. However, one overriding lesson that may be useful and hold true elsewhere is the fact that UNTAC forces did not turn to be a menace. The military forces strictly observe their given task to ensuring safety of the people and the elections process, and never let themselves to become an invading force, military or by other means.

This may sound philosophic. Yet, psychological effect and acceptance of the population should not be taken for granted at all. UNTAC operation was massive and full of extravagances: its soldiers wearing

walkmans and their ears, driving around in brand-new and fully air-conditioned cars, and have hot bath in the evening. On the other hand, the ordinary Cambodians have to struggle and rely on odd-jobs that would hopefully pay for their meager meals. The gap was huge, the jealousy (left unchecked) potentially explosive. Other future operations will likely be the same, with slight varieties on the personal attributes. All these require full and deliberate attention and cannot simply be left to chances.

Strengthening the UN's Capacity

Guiding principles will not help much unless the UN's overall capacity itself is improved. The explosive growth in peacekeeping affairs is stretching the UN limited capacity and resources to their fullest limits. Before "peacekeeping fatigue" forces it to become even more pathetic, it is therefore absolutely essential that the UN seeks new modalities and mechanisms that will help rejuvenate its vigour.

Cooperation with Regional Organisation

Cooperation with regional organisations or arrangements is one readily available option. Chapter VIII of the UN Charter has stipulated the basic principles for this, and both the Secretary General and the Security Council have issued their formal invitations for regional organisations' more active role and involvement.

From the regional organisation's part, there is now tacit agreement for their support and participation. The exact arrangements are yet to be worked out, but the trend

is unmistakably toward greater cooperation.

Of late, NATO has come out to support and coordinate its action with UNPROFOR, particularly with regard to enforcing a ban on military flights in the airspace of Bosnia and Herzegovina, and the removal of heavy weaponry in and around Sarajevo. In this capacity, NATO forces has shot down four aircrafts allegedly belonging to Bosnian Serb forces. In addition, it has issued a credible military threat that may involve air strikes.¹⁴

The UN's arrangement with NATO is not necessarily a model for other regional organisations or arrangements to follow. In fact it will be unrealistic and impractical to expect for a uniform operational arrangements due to the different purposes, functions and capacity of each regional organisations. At most, the UN may strive to seek a division of labour by asking the regional organisation to concentrate on some general areas as follows:

Trust Building Measures. Suspicions and the absence of confidence among neighbouring states are recognised as part of the fundamental factors leading to conflict. To that end, it is essential that the UN encourages regional organisations to expand and intensive their trust building measures. This may be achieved by facilitating closer economic cooperation, regular political and security dialogues, Summit meetings etc.

Preventive Diplomacy. Conflict is best approached at its earliest stage. Due to their proximity, regional organisations will have more sensitivities on identifying potentially explosive issues within their own regions.

Noting this, the UN should give priority to developing coordination mechanisms with the regional organisations. Foremost, the UN should be alert and sensitive over the reports and recommendations submitted by the respective regional organisations.

The UN's Department of Political Affairs (DPA), in particular, could play a critical role. Its desk's arrangement and composition should reflect regional realities and include at least one senior, capable analyst from the region, instead of based on random geographical representation or quota. Other UN offices will have to be regularly informed on the political, security and strategic development evolving in each region.

Along this line, it is highly recommended that Senior UN Officers, including the Secretary General in person, frequently visit and attend regional processes and activities as a part of a deliberate effort to increase confidence and credibility of the regional organisations, and vice-versa. Meetings with Ambassadors and countries representatives in the General Assembly or UN hallways is not enough. The relationship will have to be more sincere, intimate, and equal. With these, preventive diplomacy would be substantive and credible.

Early Warning. Accurate information constitutes an important part of good planning, especially for peacekeeping missions. In the same line, reliable information will also be crucial for early warning purposes. To that end, the UN should encourage development of sound and up-to-date data bases for each region and countries. Secretariat of the regional organisation and UNIC located in the region/country concerned should start developing concrete working relations and

¹⁴See, Allan Rosas, "Focus on the Case of Intervention: Towards Some International Law and Order", *Journal of Peace Research* 31, no. 2 (1994): 129.

producing comprehensive and detailed data covering geographic, demographic, social and other information relevant to early warning purposes.

Regional Peacekeeping Centre. An increasing number of countries now possess sufficiently extensive peacekeeping experience. The pooling together of their wealth of experience and expertise would substantially contribute to alleviate the UN strained capacity and resources. The idea for Regional Peacekeeping Centres, for training and information purposes, should be encouraged. The UN should closely involve itself in the processes through guidance, training and development of curricula.

Apprenticeship at the UN, for example rotating around DPKO, DPA, DHA, Administration & Finance and other relevant offices, would certainly be helpful. UNITAR and the UN University could also contribute through their publications of manuals or human resources, for example trainers and experts. Some encouraging progress, such as in Australia, is already on the making. But the UN still has to promote and expedite this process further through close and direct assistance.

Regional Organisation as Peace-Building Regime. Regional organisation, by definition, is a part of a peace building regime.¹⁵ Their effectiveness could be enhanced by encouraging them to be signatories to UN conventions related to peace. Alternatively, the UN may adopt or promote regional organi-

sations' indigenous initiatives to other member states in different region.

Facilitating Inter-Regional Cooperation and Coordination. The many regional organisations which are currently in existence lack inter-regional cooperation and tend to be preoccupied with their own respective regional affairs. For example, ASEAN-South Pacific Forum, or ASEAN-SAARC cooperation and coordination is practically non-existent. The only one exception, at least in terms of regularity, is the ASEAN-EU dialogue which is being covered under the ASEAN PMC meetings. At this point, there is no immediate need necessitating creation of such arrangement. But, if regional organisations were to be seen as part of the UN's global and collective security system, inter-regional cooperation and coordination would be essential.

In summary, regional organisations can be an important building-block and significantly contribute to the UN's tasks by securing stability and peace within their own immediate surroundings. The UN may also rely on their political initiatives to prevent turbulent situation from escalating. This does not mean the UN can just sit back and do nothing. To be effective, all these will require close and constant encouragement. Dis-engagement, especially at this early stage of relationship, will only be counter-productive.

Co-operating with NGOs

Humanitarian relief operation is becoming a regular feature in UN activities and profile. The changing nature of conflict toward increasing internal disputes and civil wars will only enhance this situation. Prob-

¹⁵See, Gareth Evans, *Cooperating for Peace: The Global Agenda for the 1990s and Beyond* (St. Leonards, NSW: Allen & Unwin, 1993), 8-16. For clarification, Evans' definition of peace building refers to strategy of peace, and not a UN post-conflict involvement as described by Boutros Boutros-Ghali in his AFP.

lems related to refugees and displaced persons, to name a few, will most likely be the dominating issues we have to face in the years to come.

Such humanitarian problems and operations have proven to be highly complicated and demanding, not only because they unfailingly affect children and women, but because life itself is directly at stake. On the other hand, the UN's capacity and expertise in this area are yet to be fully developed. Because of this, it is imperative that the UN from those who have had much longer involvement, experience and expertise in this area: namely, the non-governmental and private voluntary organisations.

NGOs have certain distinct advantages: they can be deployed to and operate on the ground much faster than a UN's team would; and they will generally stay longer within the concerned country. Both of these factors are critical to successful humanitarian relief operations. On the other hand, they are highly independent and bound only to their own philosophies. Because of these, they often clash with the UN forces on the ground, especially with the military component who is tasked to oversee overall security arrangements, including the safety of foreign nationals living and working in that particular country.

Better understanding and coordination will help to improve the situation. Instead of competing or blaming each other, the UN and NGOs will have to cooperate and coordinate their acts closely. The UN, in particular, will have to begin accepting NGOs as equal partners. And, this should not be limited to materialise only on the field or at operational level, but also at other stages, including in the planning process.

"Friends of the UN"

The UN can also expect support from individuals, or "friends of the UN". They are not just limited to Head of States of the OAS, but refer to simple and ordinary people from various walks of life. Due to unavoidable political imperatives, the UN has tended to cultivate relations with governments only. This is understandable. But, the UN should also realise that the world is not solely composed of government officials. Beyond them, there are many other personalities with interesting and useful pool of talents and resources. By neglecting them the UN is only depriving itself from otherwise potentially helpful and able friends.

"Second-track diplomacy" is gaining prominence, at least in the Asia Pacific region. Private individuals, mostly academics and intellectuals, are actively involved and supporting governmental activities through their own networks and resources. The process is mutually beneficial and the results highly encouraging.

The governmental APEC,¹⁶ for example, substantially benefits from the processes and frameworks that had been set-up earlier by the non-governmental Pacific Economic Cooperation Council (PECC). So does the ASEAN Regional Forum (ARF), whose processes and activities are being closely sup-

¹⁶The *Asia Pacific Economic Cooperation*, established in 1989 and presently comprising of 15 governments of the Asia Pacific countries and territories. On the other hand, the non-governmental PECC was formally established in 1980 although the idea itself has been floating around since the mid-1960s. Government officials have been included in PECC processes and activities, albeit in their private capacities. This, in turn, has facilitated understanding and built critical momentum leading toward a more formal and structured approach. PECC holds observer status in APEC meeting.

ported by the non-governmental Council for Security Cooperation in the Asia Pacific (CSCAP).¹⁷ The UN can also gain much through this network of private citizens. And, there is practically no costs or prerequisite to this, only to invite and encourage them.¹⁸

Re-examining Peace Strategy and Setting New Priorities

The efforts to identify guiding principles and measures for strengthening the UN's capacity are only parts of the necessary actions needed to enhance the UN's effectiveness, specifically at the operational level. Yet, they alone are far from being sufficient. The UN's problems are not limited to operational aspects only. Excessive use of force, late response, inconsistencies may be symptom of much deeper problems, for example, conceptual mis-judgment or plain strategic errors. Hence, beyond tinkering with day-to-day affairs, the UN's peace strategy itself needs to be thoroughly re-examined and its set of priorities clearly elucidated.

¹⁷CSCAP's approach is similar to PECC-APEC relationship. The main difference is that it focusses on a more sensitive issue, i.e. security. Hence, the process is necessarily gradual and its scope of activities limited, at least for the time being. For more details on this, see *Council for Security Cooperation in the Asia Pacific*, CSCAP Pro-tem Committee, CSIS: Jakarta, April 1994.

¹⁸This applies particularly to developing countries where private and voluntary "UN Associations" are practically non-existent. Such situation is not necessarily due to ignorance, but mostly because of lack of encouragement and information. The UN should seriously examine and improve this situation. The UN Information Centres (UNIC) should have intensive information campaigns and make themselves known and accessible to the people at large. It should promote various pro-

Decision for Involvement: Establishing Criteria for Intervention

Of paramount importance is to identify criteria for intervention itself. New issues are constantly unfolding and the UN will most likely continue to be expected to response: *timely, effectively, and consistently*. But, what are the grounds for the UN's involvement? The UN's resources are not unlimited. Hence, it cannot involve itself in all problems. Yet, what are the factors that will help the UN in making its decision?

There are no clear and easy answers to the above questions. Nonetheless, our discussion has revealed a number of factors which may fundamentally affect the UN's undertakings. As a guide, some of the points are listed as follows:

Clear Political Objective. The UN will have to fully understand the root cause of the problem and, from here, to identify the appropriate *political* and not military objective. Without this, the peacekeeping mission will only amount to a patchwork that is neither workable nor lasting.

Wide Political Support, not only from permanent members, but also from the rest of its member states. The UN should muster active support and involvement of other countries. The Non-Aligned Movement should be closely consulted and more effectively mobilised. Apathy, i.e. lack of consensus and controversies, will only lead to too much political negotiations and compromises. All these, in turn, will seriously affect mandates of the operation, as well as curtail-

gramme and fora to raise the UN's image and makes it closer and understandable to the general public. So far, UNIC is doing nothing but mailing small pamphlets to limited number of people.

ing the much needed material and financial supports.

Conflicting Parties' Commitment to Settle the Problem. The UN's mediation cannot be effective unless the conflicting parties themselves are willing and committed to settle the problem. Agreements to do so will have to be solicited not only from civilian authorities, but military leaders as well. Without these, the UN should simply stay away.

Clear Duration of the Mission. The UN should not engage itself and commit its peacekeepers for life. Peacekeeping should remain a temporary phenomenon, and not a permanent feature like UNTSO, UNMOGIP, UNDOF, UNFICYP, UNIFIL. Effective peacekeeping should not require more than one to two years of UN's military presence and involvement. The UN should aim and insist on this.

Positive Prospects for Material and Financial Support. Pledge and political support alone are insufficient in helping the UN to deliver its promises. For its peacekeeping operations to be workable, the UN requires men, materials and money. Stand-by arrangements and pre-negotiated contracts may help in expediting the process.

Making Choices: Concentrate on Issues with Direct Security Implications. The UN cannot be involved in everything. There will be times when the UN will have to choose and concentrate on one problem and not the other, no matter what the CNN may say about it. For illustration, what is so grave and threatening about the situation in Haiti? Is not tension in the Korean peninsula potentially more explosive? To this end, it is imperative that the UN strictly adhere to its designated purposes and functions as stipu-

lated in the Charter and avoid overly "smart" and "liberal" re-interpretation.

The UN's Actions: Adherence to Preventive and Peaceful Actions

Beyond criteria for intervention, the UN's performance is also judged on actual actions in the field. For this purpose, it may be helpful for the UN to keep in mind some of the following basic principles:

Avoid Enforcement, Stick to Essence or Traditional Peacekeeping. There should be no illusions that enforcement would continue to be the preferred mechanism to terminating conflict. Expanded peacekeeping operations, for example, to include humanitarian relief operations, organisation of an elections, civil administration support, maintenance of law and order, and human rights monitoring, are welcome and useful, as long as no coercive measures are employed. To be credible, despatch of peacekeeping forces with massive military personnel is sometimes unavoidable. This is also fully understandable and acceptable. But, enforcement actions should be clearly separated and completely taken out from peacekeeping. The essence of traditional peacekeeping, i.e. peaceful deterrence through impartiality should be preserved and strictly observed.

Promote Preventive Deployments. Following the above, preventive deployment may prove to be a useful alternative. At this point, we don't have sufficient cases to actually substantiate this judgment. Just to enhance the possibility further, the UN may want to consider despatching Civilian Police instead of military personnel as they also constitute part of well-trained personnel,

yet un-armed and hence less intimidating. To date, the Civpols' full potential and role remain under-utilised and the UN should exploit and encourage this more.

The Limits of Peacekeeping

At the end of the day, the UN will have to realise that there are limits to what peacekeeping can do and offer to a troubled country and its population. Peacekeeping is only an imperfect political solution to an acutely urgent situation, particularly those with serious implications. The longer and sustainable solutions lies outside peacekeeping, namely in the economic and social well-beings of the society itself. To that end, the proliferation of peacekeeping operations should not distract the UN from fulfilling its mandates in these areas.

In this context, peace-building, post-conflict involvement dedicated to the improvement of the troubled country's economies, can serve as an important starting point. Hence, it will have to be planned, coordinated and executed seriously, and not simply as a token or a remnant of the previously bigger and more "prestigious" peacekeeping operations.

Conclusion

In conclusion, there is no choice for the UN but to be selective in its intervention. This will not necessarily guarantee it to be free from criticisms. Intervention in whatever form will always generate controversies. By being selective, the UN could at least be more effective, and hence useful. And, this, is certainly preferable.

Book Review

The Politics of Neighbourhood *Arisan* Group

Indonesia in ASEAN: Foreign Policy and Regionalism, by Dewi Fortuna Anwar. Singapore: Institute of Southeast Asian Studies, 1994, 334 + xii pp., no index. Reviewed by J. Kusnanto Anggoro, Department of International Relations, CSIS.

THE appearance of this appropriately titled study that has scored many praises in book reviews (*Republika* and *Kompas* daily issued in October and November 1994) could hardly have been more timely. ASEAN's maturity is being tested. It can neither ignore nor isolate itself from the prevailing trend in the region. At the same time, it cannot be diluted by its undercurrent. For one thing, with the increase in political stability and the relative success of Indonesia's economic development, the new order government of Indonesia seems to be adopting an increasingly assertive foreign policy.¹ For another, the

AELM (APEC Economic Leaders Meeting) in Bogor, mid-November 1994 provided an ominous sign of how ASEAN cooperation could dilute in a wider regional cooperation.

In addition, in the light of uncertainties surrounding security challenges of the post-Cold War architecture of international politics that the region of Southeast Asia would have to face, ASEAN's cohesion could be fading away. Still, as the prospect for cooperation might diminish as the number of players increases,² an expanding ASEAN by the inclusion of Vietnam and other prospective candidates may pose some problems to the already meagre ASEAN (economic) cooperation. Adding to this quandary is, of course, generational changes in all ASEAN member states -- a factor that makes examination of domestic politics and regionalism deserve specific attention.

¹Michael Vatikiotis, "Indonesia's Foreign Policy in the 1990s", *Contemporary Southeast Asia* 14, no. 4 (March 1993): 352-367.

²Keneth A. Oye (ed.), *Cooperation Under Anarchy* (Princeton: Princeton University Press, 1986), 18.

Change and Continuity of Indonesian Policy Towards ASEAN

The stated aim of this book is to conduct a broad enquiry into the actual policy of the Indonesian government toward ASEAN cooperation, to analyse the factors that continue to sustain Indonesia's support for ASEAN as well as other factors that have mitigated against a greater commitment to regional integration (p. 11-13). This work looks at the historical background that led to Indonesia's participation in ASEAN, analysing both domestic and foreign environments that gave the country an impetus towards regional cooperation. The key to understanding these various interactions is to be found in several related factors: the decision making regimes; the perception or images of ASEAN held by Indonesia elite; ASEAN economic performance; and public opinion.

The study is well documented, by presenting good explanation of Indonesia's foreign policy towards ASEAN. In terms of the research upon which it is based, the book is divided into seven chapters and qualifies as a serious work. Having laid down a methodological framework at the outset, the bulk of the study is concerned with exploring, in some considerable detail, the contour of Indonesia's policy towards ASEAN during a period which begins from 1967 and ends in 1987. The opening two chapters discuss the background of Indonesia's foreign policy. The rest deals with economic, functional, and structural aspects of ASEAN cooperation (chapter 3), military aspects of ASEAN Cooperation (chapter 4), on political aspects (chapter 5), and the course of Indonesia's non-government world (chapter 6). The last chapter attempts to shed the light on ASEAN as an aspect of Indonesia's foreign

policy.

A central thesis which emerges from the book is that the Indonesian policy towards ASEAN is essentially ambivalent. Torn on the one hand between displeasure of intra-ASEAN political and economic cooperation, and, on the other, by the imperative of greater engagement to create regional harmony and to enhance Indonesia's international stature, Indonesian policy came to rest upon what Anwar describes as "stability despite dissatisfaction" (p. 276). She makes a balanced weighing on some points. Indonesian elites have expressed their dissatisfaction on the axis of intra-ASEAN trade (p. 92-94), but they expected ASEAN to strengthen Indonesian negotiating position in the extra-regional trade (p. 109). In the same vein, while Indonesia's dream of helping to create a more self-reliant regional order through ASEAN cooperation has remained basically unfulfilled (p. 182), ASEAN is expected to provide Indonesia with a solid base from which to launch its more ambitious foreign policy initiatives (p. 319). To the Indonesian elites, as Anwar argues, "the content of cooperation had been of less importance ... than the act of cooperating itself" (p. 303).

As a picture of how it reached that point is certainly a different question. Although most parts of the book present a good account of the subject concerned, it cannot depict the impact of domestic changes to foreign policy conduct. Anwar shows that profound transformation of Indonesia's foreign policy occurred largely thanks to changes in the internal environment. She makes a convincing argument that after the ascendancy of the Soeharto regime, Indonesia entered a stage of depoliticisation of foreign policy. Indonesia's new order government certainly wanted foreign policy to serve

domestic ends and so sought better relations with her neighbours. Indonesia's policy of ASEAN was designed to undo the damage that the confrontative phase had done to the country (p. 57). Thus, implicitly, internal factors seem more important than their external counterparts, say strategic environment of Southeast Asia in the late 1960s, in deciding Indonesia's policy towards ASEAN. The vectors of the Indonesian policy were then more directed by internal impulses rather than by external momentum.

This blueprint, however, does not aptly apply to the analysis of Indonesia's ASEAN policy during the consecutive years after its formation. Indonesia's policy towards the association might be fundamentally altered by the new and evolving context in which they operate. It will most possibly change along the line of asymmetric trade-off with-in ASEAN cooperation and of domestic roots of Indonesian foreign policy. A priori theories of preference based on domestic factors are missing. So was the asymmetric pay-off theory on international cooperation.

Asymmetric Pay-offs in International Cooperation

It would be a useful contribution if she provides some theoretical insight for this, for example, against the background of international anarchy. Pessimists may suggest that "no nation will concede advantages to another nation without the expectation, which may or may not be well-founded, of receiving proportionate advantages in return".³ But in the more complicated, and

realistic, social interactions, the notion of "pay-offs" are however less straightforward⁴ and should not necessarily be identical or equivalent. Otherwise, in the issue-areas where a balance exchange of gains could not be found, collaborative agreement would not be possible.

In other words, it is quite likely that mutually advantageous relations would follow the theory of asymmetric pay-offs.⁵ The success of ASEAN cooperation has not relied upon the basic premise of international cooperation of "bringing about a balanced sharing among partners of the gains and costs arising from joint actions".⁶ An organic relationship serving primarily the purposes of political and security interests may prove to be even more stable than cooperation rooted in economic considerations. It seems probable that the pulse of ASEAN political cooperation is largely independent from its economic and functional counterparts.

In leading off chapter 3 Anwar provides vital details on the functional cooperation. However, examining economic and functional cooperation in a somewhat overcrowded chapter (chapter 3) is not yet a fruitful approach, given their relative closeness to the nature of domestic politics. The losses seem to outweigh the rewards, as the former is much related to bureaucratic politics, the latter with administrative constraints. ASEAN functional cooperation was undertaken to satisfy the formal aims of

⁴Robert Keohane, "Reciprocity in International Relations", *International Organization* 40 (Winter 1986): 5.

⁵Robert Axelrod, *The Evolution of Cooperation* (New York: Basic Books, 1984), 30-31.

³Joseph Grieco, *Cooperation Among Nations* (Ithaca, N.Y.: Cornell University Press, 1990), 47.

⁶Grieco, *Cooperation Among Nations*, 48.

ASEAN as stated in the Bangkok Declaration (p. 106). She is surely right to argue that the main problem was that the benefits of regional cooperation could not easily be distributed equally amongst all the members. This is particularly true of intra-regional trade where the largest member, Indonesia, felt that instead of benefiting from an increase in intra-ASEAN trade, it could only suffer economic losses as a consequence.

Less convincing argument is that economic cooperation within the framework of ASEAN cooperation is mainly meant to strengthen Indonesian negotiating position in the extra-regional trade (p. 117). The strength of such prescriptive argument is not well tested on the ground. For one thing, ASEAN itself has not made good use of the potentials it has to play in a wider regional structure of international politics. More significantly, it does not explain much about Indonesia's stance and refusal of Malaysian Mahathir Mohammed's proposal on EAEC (East Asian Economic Caucus). Thus, the more sensible answer could well be theoretical: that the role of individual countries or a group of countries in a wider regional structure does not solely depend upon a set of objective factors (namely economic and technological) but also upon political and institutional factors. In the process, cooperative behaviour may be more likely when states pursue a strategy of reciprocity, because they know they will be punished for defecting and rewarded for cooperating. ASEAN has simply no such rules of the game.

The overall tone of the book, as to prospects for progress towards a more assertive Indonesian foreign policy, implies no unrealistic optimism, nor unjustified pessimism. It helps the reader to grapple with the puzzle

why Indonesia has not yet been able to devote its interests on ASEAN. The book does not speculate on supplying an answer to this puzzle, but it casts useful light for a better understanding of Indonesia's policy towards ASEAN. Indonesia's pay-offs, its perception of balance, its time horizon and expectations about the future, and its capacity to employ strategies to modify the game are heavily conditioned by its domestic situation.

Domestic Politics and the Making of Foreign Policy

The determinant of foreign policy changes has been a perennial concern of international relations literature. The muddle about Indonesia's foreign policy needs a fusion of domestic and external factors, if we are to start to understand the nature of change and continuity in foreign policy making. And it remains an intriguing question whether Indonesia's foreign policy would be directed mostly by internal impulses or by external momentum. Indeed, a combined approach of domestic and external factors is undoubtedly too ambitious a goal.

Anwar proceeds from the premise that "domestic variable" provide a more satisfactory explanation of foreign policy. Within the academic disciplines this holds true in both the more state-centric interpretations of realism and neo-realism and competing paradigms such as those of structuralism and pluralism.⁷ These do, of course,

⁷These paradigms are derived from Michael Banks, "The Inter-Paradigm Debate", in Margot Light and A.J.R. Gordon (eds.), *International Relations: A Handbook of Current Theory* (London: Francis Printer, 1985).

place differing emphases upon the importance of the state. The pluralist view regards non-state actors, including the so-called epistemic community,⁸ as crucial participants in international affairs. Thus, foreign policy is defined typically as "the range of actions taken by varying sections of the government of a state in its relations with other bodies similarly acting on the international stage".⁹ Until then analysis of foreign policy requires state of the arts, and it is somewhat unfortunate that the discipline of international relations has largely avoided the debates on this idea in political science.¹⁰

In most ASEAN countries, unlike in the more developed Western democracy, pressure from the public of interest groups has not been allowed to impact negatively on the ASEAN political process. The strength of cooperative arrangements was not determined by the domestic power amassed by members of the epistemic community within their respective government. Indeed, epistemic community and domestic politics are linked somehow. But how the community

⁸Recent international relations literature deals with the role of "epistemic community" in advancing cooperation. Such a community is "a professional group that believes in the same cause-and-effect relationships, truth tests to accept them, and shares a common values; its members share a common understanding of a problem and its solution". See, Peter Haas, *Saving the Mediterranean* (New York: Columbia University Press, 1990), 55.

⁹P.A. Reynold, *An Introduction to International Relations* (London: Longman, 1971), 36 (emphasis added).

¹⁰This neglect is noted in Fred Halliday, "State and Society in International Relation", in Michael Banks and Martin Shaw (eds.), *State and Society in International Relations* (New York: Harvester Wheatsheaf, 1991), 193-194; but, cf. Haas, *Saving the Mediterranean*, especially 55-57.

penetrated domestic politics and altered states' preferences are less well documented. Anwar carefully researched under the rug and found nothing of importance in that Indonesia's non-governmental world could influence official policy. She presents difference of views amongst the so-called ASEAN maximalists and minimalists as well as counter-elite groups. She comes to the conclusion that "ASEAN has not really established linkages at the grass-root level" (p. 271), which could act as pressure on the government to maintain close regional cooperation in the event of waning political will on the part of the decision makers.

Of no less importance is the fact that nowhere in the book could we find the impact of Indonesia's domestic emphasis of economic development before and well beyond 1978 on Indonesia's stances in many regional problems. She did mention the *Trilogi Pembangunan* or the Development Trilogy comprising political stability, economic growth, and the distribution of the benefits of development (p. 279). The order was changed somewhat in the mid-1980s. By not making any hints on the exclusivity of foreign policy decision making, Anwar strengthens the classic axiom of the study and conduct of international relations that the activity of foreign policy is the preserve of the state and is mainly the concern of political elites.

If one can imply something from the book, it is that an elitist approach leads nowhere by depicting political variables as an important and complex cluster of influences on foreign policy. The idea of providing domestic context of and constraints to Indonesia's foreign policy is ambiguous and not really well-planned. Data were often analysed without employing an explicitly ar-

ticulated theory or concept. They have their significant ground in chapter 4 (particularly pp. 123-131), chapter 5 (pp. 191-193) and almost the whole chapter 6, but is not well developed in the analysis of economic, functional, and structural aspects of ASEAN Cooperation (chapter 3).

The book retains to some extent the most endemic character of most foreign policy analyses. It suffers from a systematic neglect of domestic factor, even while it depends on implicit theories about internal politics. For example, instead of addressing the question as to what extent non-governmental world posed a serious place in decision-making, she might as well have analysed the question, whatever the extent, of cluster of views within the establishment of military and/or ministerial bureaucracy. In short, Anwar should have been consistent in employing "institutional theories of state" she uses in chapter 3, 4 and 5 rather than bothering to examine "elite theories of politics" in chapter 6.¹¹ This should provide Anwar with a firmer grasp of analytical benchmarks by which she would have fulfilled her objective of "exploring Indonesia's commitment of ASEAN will continue in the post-Soeharto era".

¹¹"Institutional theories of the state" focus on domestic decision-making structures, such as bureaucracy and military establishment or other decision-making structures. See, G. John Ikenberry (ed.), *The State in American Foreign Economic Policy* (Ithaca, N.Y.: Cornell University Press, 1990). "Elite Theories of The States" locate the source of cooperation in the nature of the national decision-makers. The backgrounds, beliefs, and political context of the elites will shape international bargaining. See John Odell, *U.S. International Monetary Policy* (Princeton: Princeton University Press, 1988).

Some Spots on the Sun: Theoretical and Technical

Indonesia in ASEAN is a careful chronicle of Indonesia's foreign policy towards ASEAN. To some degree, Anwar succeeds to fulfill her objectives stated earlier in the background (p. 14). She has provided a vivid account on the actual policy pursued within the framework of ASEAN and on the attitudes of elite members within and outside the government regarding ASEAN. Adding to the list is her success to highlight the place of ASEAN in the New Order's domestic and foreign policy schemes.

Of course there are a few quibbles over the book. Primary sources, documentary and by interviews, play a major role. But these interviews, unfortunately without serious and responsible attempts to find independent confirmation, have so much affected the whole analysis, that Anwar's own point of view seems to be in the limelight. She seems to avoid controversial issue of high politics, and focused on more casual politics of regional cooperation instead. Perhaps, more serious reservation should be concerned with the adopted approach. She has undoubtedly made the point quite clear in her introduction that she follows Weinstein's approach of using analytical tool step-by-step as the research progresses (p. 11). It is also true that a social scientist should always be aware of the fact that as much as different theories of international politics identify different variables as being central to cooperation, so do the elites and institutional theories. Nevertheless, one can judge the relative merits of any theory only when specific hypotheses have been deduced from them and tested against the evidence. While history has never repeated itself, a theory

can make elaboration much more consistent and yet provide a powerful deduction. Without a theory, this type of analysis might well be dismissed as an awkward amalgam of data collection, policy analysis, and journalistic interviews that is as divorced from scholarship as sense impressions are from theory.

Anwar's approach has influenced to a large extent the level to which she is able to identify the underlying variables of Indonesia's foreign policy. She has succeeded in elaborating the nature of Indonesia's foreign policy. Most hypothetical assumptions cited in the introduction (pp. 9-10) -- compiling earlier writings of Leifer (regional leadership), Robert Horn (independent of big powers), and of Van der Kroef (publicity gimmicks) -- are basically strengthened. However, when she writes in the introduction that the primary aim of her study is to focus on the perceptions of Indonesian policy-makers and political elite as a whole (p. 4), one may expect to read a comprehensive study of Indonesia's foreign policy. She identifies three domestic factors (pp. 7-8): the interactions of attitudes and political competition, national capability and self-image (following earlier identification by Franklin B. Weinstein, Michael Leifer and George Modelski respectively). One factor is certainly missing, that is national leadership and decision-making process entailed. She should have made the suggestion that, for example, decision-making regimes can be viewed as being "directive", with power monopolised by a single leader or group.

Thus, what she has achieved is an analysis of the output side of Indonesia's foreign policy, but not quite of the black box of the policy input and policy formulation. The question that remains is how an actor (In-

donesia) might behave under various sets of circumstances. Had she employed the three domestic factors that she identified, perhaps by adding that of national leadership and the nature of decision-making process, this question would have been addressed. Changes of Soeharto's views of foreign policy, for example, have been the matter in hand for the last couple of years.

Of course, in and of itself, this need not be a failure. The author suggests that "one cannot expect dramatic changes in Indonesia's policy towards ASEAN (p. 271). And a serious reader may conclude that any society is part of an evolutionary process which proceeds by means of two seemingly contradictory mechanisms. Whereas the span of possible adaptations is delimited by the physical environment, the internal structure, and, above all, by previous choices, the evolution proceeds not in a straight line but through a series of complicated variations which appear anything but obvious. In retrospect, the choice may seem to have been nearly random or else to have represented the only available alternative. In either case, the choice is not an isolated act but an accumulation of previous decisions reflecting history or tradition and values as well as the immediate pressures of the need for survival. And each decision delimits the range of possible future adaptations.

Another spot on the sun in what is otherwise an excellent exposition is that the final chapter lacks the coherence of the earlier ones, tending to be somewhat repetitive. Still, to maintain the flow of reasoning, additional notes on Soemitro (pp. 152-153) should be more appropriate if it is put in a footnote. Likewise, differences of opinion between Wanandi and Wahyono on the perception of the younger military officers

(pp. 157-158) should have been put forward some pages earlier, for example, when explaining internal debates, and not as a concluding part of the chapter concerned. For the same reason, the note about CSIS (p. 260) should have been presented as a footnote somewhere in the earlier page. References on Berkeley University in California (p. 35) and *Suara Marhaen* (p. 334), to name but few, are perhaps unnecessary slips of the pen. These slips may lay well beyond the author's control, but not the exposition of additional notes on the main text.

It is her privilege, of course, not to present a theoretical framework, and she should not be blamed for this. Analyses of history using a step-by-step approach, in which educated, intellectual intuition plays a very important role, have their own merit and can be useful bases for understanding past behaviours of states. Political scientists, unlike

policy analysts, have not always sought to predict future behaviour of states but pursued their efforts on describing and explaining it. She has been with the Indonesia's Institute of Social Sciences (LIPI - *Lembaga Ilmu Pengetahuan Indonesia*) and the value of her work has already been established and the book as a whole must be seen as timely, apposite and perceptive. As a clear and readable study of its subject, and an essential reading for students of Indonesia's foreign policy, it stands as one of the best recent studies written by an Indonesian and is to be welcomed just for that. An index would certainly be very helpful to readers and make it a more authoritative work. Since the book evolved from the author's 1989 Monash University doctoral dissertation, the university deserved few words of mention or acknowledgement. This is not a matter of honesty but also one of responsibility.

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